LANXESS Aktiengesellschaft
Leverkusen

Annual Group Financial Statements
and Group Management Report for the Business Year 2009

GROUP MANAGEMENT REPORT

THE LANXESS GROUP

Business and strategy The LANXESS Group is a globally operating chemicals enterprise with a portfolio ranging from polymers to basic, specialty and fine chemicals. In our core businesses, all of the conditions are in place for long-term success. These include a flexible asset network, a diversified customer base, a global presence with regional flexibility and an entrepreneurial management structure. We see ourselves as a premium company that is not only a reliable supplier of products in optimal quality. We also actively support our customers' innovation processes and add measurable value. This enables us to strengthen customer loyalty and set ourselves apart from the competition. Our aim is to achieve sustainable growth, particularly through further expansion of our activities in the dynamic BRIC countries.

In response to the global economic crisis, we put together an extensive range of operating measures named Challenge09-12, the success of which is already reflected in our results for 2009. Flexible asset and cost management as well as human resources measures form the backbone of this program. Through our Group-wide flexible asset management policy, we have been able to avoid overproduction, cut spending on raw materials, energies, infrastructure services and logistics, and reduce the unnecessary build-up of inventories. Our employees have also helped to relieve cost pressure by taking a cut in working hours and a corresponding reduction in pay.

The objective of Challenge09-12 is to cut overall costs by €360 million worldwide between 2009 and 2012. Implementation is proceeding faster than expected. In 2009 we achieved around €30 million of the savings target set for 2010. Cost reductions in the year under review therefore totaled €170 million.

The segments in brief LANXESS's 13 business units are grouped in three segments: Performance Polymers, Advanced Intermediates and Performance Chemicals.

Synthetic rubber and plastics manufacturing activities are combined in the **Performance Polymers** segment. Here, LANXESS offers a broad portfolio of innovative products that holds a leading position internationally. The segment comprises the Butyl Rubber, Performance Butadiene Rubbers, Technical Rubber Products and Semi-Crystalline Products business units. The Performance Polymers segment's production facilities are located in Dormagen, Krefeld-Uerdingen, Leverkusen, Hamm-Uentrop and Marl, Germany; Antwerp and Zwijndrecht, Belgium; La Wantzenau and Port Jérôme, France; Sarnia, Ontario, Canada; Orange, Texas, United States; Cabo, Duque de Caxias and Triunfo, Brazil; and Wuxi, China. Rubber products have applications in various areas, particularly the automotive and tire industry, construction materials, leisure equipment and machinery, but also in niche markets such as chewing gum. The plastics that LANXESS produces are used in particular in the automotive industry, electronics and electrical engineering, and medical equipment.

The business activities that LANXESS combines in its **Advanced Intermediates** segment make it one of the world's leading suppliers of basic and fine chemicals. The business units in this segment are Basic Chemicals and Saltigo. The Advanced Intermediates segment's production sites are located in Brunsbüttel, Dormagen, Krefeld-Uerdingen and Leverkusen, Germany; Liyang, China; Nagda, India; and Baytown, Texas, United States. Its products are used in such diverse sectors as agrochemicals, construction, dyes and pharmaceuticals.

The **Performance Chemicals** segment embraces the Group's application-oriented specialty chemicals operations. The business units in this segment are Material Protection Products, Inorganic Pigments, Functional Chemicals, Leather, Rhein Chemie, Rubber Chemicals and Ion Exchange Resins. The segment's production sites are in Bitterfeld, Brunsbüttel, Dormagen, Krefeld-Uerdingen, Leverkusen and Mannheim, Germany; Antwerp, Belgium; Branston, United Kingdom; Filago, Italy; Vilassar de Mar, Spain; Isithebe, Merebank, Newcastle and Rustenburg, South Africa; Burgettstown, Pennsylvania, Bushy Park, South Carolina and Chardon, Ohio in the United States; Porto Feliz, Brazil; Zárate, Argentina; Qingdao, Tongling, Shanghai and Wuxi, China; Madurai and Jhagadia, India; Toyohashi, Japan; and Sydney, Australia. The segment's varied products are used in areas such as disinfectants, colorants, wood preservatives, the food and beverage industry, water treatment, construction and the leather industry.

Organization LANXESS AG functions largely as a management holding company. Each business unit has global responsibility for its own operations. The business units are complemented by service-providing group functions with international responsibility.

LANXESS Deutschland GmbH and LANXESS International Holding GmbH are wholly owned subsidiaries of LANXESS AG, and in turn control the other subsidiaries and affiliates both in Germany and elsewhere.

The following are the principal companies wholly owned by LANXESS AG directly or indirectly:

- LANXESS Deutschland GmbH, Leverkusen, Germany: production and sales, all segments
- LANXESS Corporation, Pittsburgh, Pennsylvania, United States: production and sales, all segments
- LANXESS Elastomères S.A.S., Lillebonne, France: production and sales, Performance Polymers
- LANXESS Holding Hispania, S.L., Barcelona, Spain: holding company, all segments
- LANXESS Inc., Sarnia, Ontario, Canada: production and sales, Performance Polymers
- LANXESS International SA, Granges-Paccot, Switzerland: sales, all segments
- LANXESS N.V., Antwerp, Belgium: production and sales, Performance Polymers and Performance Chemicals
- LANXESS Rubber N.V., Zwijndrecht, Belgium: production and sales, Performance Polymers
- LANXESS Elastômeros do Brasil S.A., Rio de Janeiro, Brazil: production and sales, Performance Polymers
- Rhein Chemie Rheinau GmbH, Mannheim, Germany: production and sales, Performance Chemicals
- SALTIGO GmbH, Leverkusen, Germany: production and sales, Advanced Intermediates

In a transaction that took economic and legal effect on September 1, 2009, we acquired the chemical businesses and assets of listed Indian company Gwalior Chemical Industries Ltd. through our Indian subsidiary LANXESS India Private Ltd. Founded in 1978 and headquartered in Mumbai, the company is one of India’s leading producers of benzyl products and among the world’s main suppliers of sulfur chlorides.

Our acquisition of the businesses and production facilities of Jiangsu Polyols Chemical Co. Ltd. also became legally and commercially effective on September 1, 2009. This mid-sized Chinese company, established in 2006 and based in Liyang, west of Shanghai, mainly produces the polyol trimethylolpropane (TMP), which is used to manufacture coatings, paints and lubricants, for example.
As planned, in September 2009, we withdrew from the INEOS joint venture and thus from the low-margin ABS plastics business. We also divested our 55% majority shareholding in the hydrazine hydrate joint venture company LANXESS Yaxing Chemical (Weifang) Company Ltd. in the fourth quarter of 2009.

VALUE MANAGEMENT AND CONTROL SYSTEM

Value Management and Control System

		2005	2006	2007	2008	2009
EBITDA pre exceptionals	€ million	581	675	719	722	465
EBITDA margin pre exceptionals	%	8.1	9.7	10.9	11.0	9.2
Capital employed	€ million	2,578	2,640	2,660	2,989	3,475
ROCE	%	12.9	15.9	17.7	15.4	5.9
Days of sales in inventories (DSI)	Days	53.8	56.1	54.5	66.9	55.1
Days of sales outstanding (DSO)	Days	53.6	49.5	49.3	44.6	47.0
Net financial liabilities	€ million	680	511	460	864	794
Net debt ratio		1.2x	0.8x	0.6x	1.2x	1.7x
Investment ratio	%	3.5	3.8	4.3	5.4	6.8

2008 figures restated

To achieve its strategic goals, the LANXESS Group needs concrete controlling parameters against which it can measure the success of its efforts. Such assessments are founded on a reliable, readily understandable financial and controlling information system. LANXESS is constantly working to further improve the information provided by the Accounting and Controlling group functions through consistent reporting of projected, expected and actual data.

The key controlling parameter for the LANXESS Group and the individual segments at present is EBITDA (earnings before interest, income taxes, depreciation and amortization) pre exceptionals. It is calculated from EBIT by adding back operational depreciation and amortization, leaving out any exceptional items. Every operational decision or achievement is judged both short-term and long-term by its impact on EBITDA.

To control working capital, we use two key performance indicators: DSI (days of sales in inventories) and DSO (days of sales outstanding). These represent inventories and receivables, respectively, in relation to sales. Another important performance indicator is business free cash flow, which indicates the business units' direct contributions to cash generation. It is calculated for the operating units by a simplified cash flow method.

Net Financial Liabilities

€ million	2005	2006	2007	2008	2009
Non-current financial liabilities	688	632	601	959[1)]	1,462
Current financial liabilities	141	62	59	168	94
Less					
Liabilities for accrued interest	(13)	(12)	(11)	(14)	(47)
Cash and cash equivalents	(136)	(171)	(189)	(249)	(313)
Near-cash assets	0	0	0	0	(402)
	680	**511**	**460**	**864**	**794**

1) After deduction of €27 million in specific exchange hedging of financial liabilities

The net debt ratio, which we use solely at Group level, is defined as net financial liabilities divided by EBITDA pre exceptionals. Net financial liabilities are the total of current and non-current financial liabilities, less cash, cash equivalents and near-cash assets. The financial liabilities reflected in the statement of financial position are adjusted here for liabilities for accrued interest.

Return on capital employed (ROCE) has been implemented as a key controlling parameter at Group level. ROCE is a profitability ratio that indicates how effectively we utilize our capital. This makes it an important criterion in investment decisions, for example. All new investment projects must substantially exceed the Group's ROCE. ROCE is the ratio of EBIT pre exceptionals to capital employed. Capital employed can be derived from the data in the statement of financial position; it is defined as total assets less deferred tax assets and interest-free liabilities. Interest-free liabilities comprise provisions (except those for pensions), tax liabilities, trade payables, and material items included under "other liabilities." In addition, we use a simplified variant of ROCE, called "business ROCE," for planning and management of our business units.

With both these ROCE variants, value increases as soon as ROCE exceeds the weighted average cost of capital (WACC), following conversion of this parameter to a comparable basis. WACC is a weighted average of the cost of raising equity and debt capital. From the cost of debt capital we first correct the tax advantage resulting from the tax deductibility of interest incurred on borrowed capital. The individual financing components are generally weighted at market value.

Borrowing costs are calculated from risk-free interest, i.e., in LANXESS's case, from the return on a long-term German government bond plus a risk premium for industrial companies in the same risk category as LANXESS. The cost of equity reflects the return expected by investors from an investment in LANXESS shares. Equity investors demand a risk premium due to the greater risk involved in acquiring shares than in buying risk-free government bonds. This is known as a "market risk premium" and is calculated using the long-term excess return generated by a stock investment over an investment in risk-free government bonds and adjusted by the "beta factor" denoting the relative risk of an investment in LANXESS stock compared with that of the market as a whole.

At 5.9%, ROCE in 2009 was below our weighted average cost of capital, adjusted for comparability, which amounted to 8.4% after tax as of December 31, 2009. The net debt ratio rose from 1.2 in the previous year to 1.7 as of December 31, 2009 in connection with the decline in earnings in 2009, marked as it was by the financial crisis.

Expenditures for property, plant and equipment are subject to rigorous capital discipline and are aligned systematically with those product areas with the greatest potential for success. Investment projects are prioritized on the basis of existing financial indicators such as the pay-off period, net present value and ROCE.

EVA (economic value added) is also used as a parameter for value management in strategic planning and determining the long-

term alignment of the business segments.

BUSINESS CONDITIONS

The economic environment During the first half of 2009, the global economy touched bottom in what has been the worst recession since the Second World War, gradually spreading to all regions and sectors. Even the fast-growing emerging nations experienced an in some cases significant slowdown in economic growth. The extensive packages designed to stimulate the economy and prop up the financial sector began to take effect around mid-year, ushering in a perceptible upswing. The economies of industrial countries recovered from their lows as the year progressed, but still remained well behind 2008 levels. However, the economic rebound in most emerging economies was powerful enough for them to actually surpass pre-crisis levels at the end of 2009.

Overall, the global economy contracted by 2.0% in 2009. Asia's emerging markets remained relatively robust during the year, recording positive growth rates. China again posted strong growth of 8.5% thanks to government stimulus programs, while India's economy expanded by 6.4% over the year following a slight dip in growth. This stood in contrast to the contraction in the North American, Japanese and European economies, with Japan (minus 5.4%) and Germany (minus 4.8%) hit especially strongly by declining exports.

The global capital markets anticipated the unfolding economic revival, with share prices increasing markedly. The Dow Jones and the Nikkei Index each gained around 19% year on year, while the DAX added nearly 24%.

To provide support for the billion-euro government economic stimulus packages, the European Central Bank cut its key lending rate further from 2.0% to 1.0% in several stages. The U.S. Federal Reserve continued its zero interest rate policy as it were with a funds rate of between 0.00% and 0.25%.

After rallying significantly against the euro in the opening months of 2009, the price of the U.S. dollar again declined tangibly during the year. At the close of 2009, the euro was worth US$1.44, which represented a decline of 3.6% in the value of the U.S. currency in 2009. Its average price for the year was around US$1.39. Due to the positioning of our business, a weaker U.S. dollar generally has a negative effect on LANXESS's earnings.

The economic recovery was also reflected in the price of crude oil in 2009, which climbed around 85% to US$78, from US$42 at the end of the previous year. As a purchaser of petrochemical raw materials, LANXESS is impacted by this trend, as it leads to higher production costs.

The chemical industry Global chemical production contracted by 5.4% in 2009, largely due to drastic destocking by customers. All regions with the exception of China and India were affected by this downturn. The NAFTA region, Europe and Japan were hit particularly hard in the first three months of the year before production began to recuperate in the subsequent quarters. At the end of 2009, production in the industrialized nations was down substantially compared with pre-crisis levels, while output in the emerging economies improved year on year.

GDP and Chemical Production in 2009

Change vs. prior year in real terms (%) (projected)	Gross domestic product	Chemical production
Americas	(2.5)	(8.9)
NAFTA	(2.7)	(9.6)
Latin America	(0.7)	(4.4)
EMEA	(4.0)	(11.6)
Germany	(4.8)	(18.0)
Western Europe	(3.9)	(13.1)
Central/Eastern Europe	(5.9)	(10.2)
Asia-Pacific	1.3	2.5
Japan	(5.4)	(14.3)
China	8.5	12.3
India	6.4	5.3
World	**(2.0)**	**(5.4)**

Evolution of major user industries Global production in the **automotive industry** suffered very heavy losses in 2009, falling back 13.5%. Automobile production in industrial countries proved extremely weak and was boosted by vehicle scrappage allowances and tax incentives. Output in the NAFTA region fell by a very considerable 32.5%. A similar trend was observed in Japan. In western Europe, although the well-utilized government incentive programs helped cushion the fall, production still declined by 20.5%. China provided a stark contrast to these trends with a remarkable increase of 42% on the back of tax incentives. Along with China, India's 11% growth made it one of the few countries able to boast high production growth rates.

Output in the **tire industry** decreased by 8.5% in 2009, with only India and especially China able to escape the downward trend during the year. Production in the industrialized countries fell sharply. The original equipment business deteriorated as a result of the steep decline in automakers' production figures and was one of the main drivers of this negative trend. The replacement tire business recorded a pronounced decrease early in 2009, but this became less severe as the year progressed. Lower industrial production, which led to a reduction in transport services, prompted a marked downturn of 11% in the truck and bus segments.

The decline in the **construction industry** accelerated during 2009 from minus 0.6% to minus 6.7%. Only China and India were able to achieve positive growth rates. The downtrend intensified to reach minus 15.1% in the NAFTA region, where the slump in the housing sector was followed by stagnation in commercial property construction. The industry's performance in Europe was also negative.

Compared with the previous year's high level, demand for chemicals manufactured for the **agricultural industry** fell on account of adverse weather conditions, restricted access to credit, especially in Europe, and high stocks held by customers in the agrochemicals sector. The limited predictability of prices for agricultural products led to reduced utilization of agricultural chemicals in crop production. The market shrank overall by 5.2%. China and India saw growth of 2.8% and 0.8% respectively, although an irregular monsoon period in India impeded larger increases.

Evolution of Major User Industries in 2009

Change vs. prior year in real terms (%) (projected)	Auto-motive	Tires	Con-struction	Agro-chemicals
Americas	(26.0)	(13.5)	(13.7)	(8.1)
NAFTA	(32.5)	(14.0)	(15.1)	(9.8)
Latin America	(3.0)	(10.5)	(4.4)	(4.8)
EMEA	(20.5)	(11.5)	(7.2)	(8.1)
Germany	(14.5)	(8.0)	(2.4)	(9.3)
Western Europe	(20.5)	(13.0)	(7.6)	(11.3)
Central/Eastern Europe	(26.0)	(11.0)	(9.9)	(7.8)
Asia-Pacific	(0.5)	(3.1)	0.3	(0.8)
World	**(13.5)**	**(8.5)**	**(6.7)**	**(5.2)**

LEGAL ENVIRONMENT

There were no changes in the legal environment in 2009 that would have had a material impact on the cash flows, financial condition or results of operations of the LANXESS Group.

BUSINESS PERFORMANCE OF THE LANXESS GROUP

- Sales down 23.1% in fiscal 2009 due to the economic crisis
- EBITDA pre exceptionals of €465 million
- EBITDA margin pre exceptionals of 9.2% underlines LANXESS's business strength
- Effective Challenge09-12 package of measures boosts competitiveness
- Acquisitions in Asia successfully completed
- Positive net income of €40 million
- Solid statement of financial position and financing structure ensure stability
- Strict working capital management reduces net financial debt to €794 million in spite of acquisitions

Key Financial Data

€ million	**2008**	**2009**	Change in %
Sales	6,576	5,057	(23.1)
Gross profit	1,461	1,101	(24.6)
EBITDA pre exceptionals	722	465	(35.6)
EBITDA margin pre exceptionals	11.0%	9.2%	
EBITDA	602	422	(29.9)
Operating result (EBIT) pre exceptionals	462	204	(55.8)
Operating result (EBIT)	323	149	(53.9)
EBIT margin	4.9%	2.9%	
Financial result	(77)	(117)	(51.9)
Income before income taxes	246	32	(87.0)
Net income	183	40	(78.1)
Earnings per share (€)	2.20	0.48	(78.2)

2008 figures restated

Summary of the fiscal year Fiscal 2009 was dominated by an extremely challenging global economic environment. Demand for our products retreated markedly in all business units compared with 2008, which had been a record year. Starting in the second half of the year, demand began to pick up slightly, though it remained subdued on the whole. We were gratified to see this trend continue until the end of the year in many of our business units. Among LANXESS's customer industries, the automotive and tire sectors were especially affected by the significant drop in demand. In regional terms, there was a tangible slump in all markets. A positive trend was seen only in the Asia-Pacific region, especially China.

Adjusted for portfolio and currency effects, sales decreased by a substantial 26.2% over the year as a whole. Our operating result before depreciation and amortization (EBITDA) pre exceptionals fell by 35.6% against the previous year to €465 million, due in particular to the slide in sales volumes. Thanks to flexible asset and cost management in conjunction with the Challenge09-12 package of measures we implemented, we achieved our goal of stabilizing margins by maintaining our "price before volume" strategy. The EBITDA margin was 9.2%, down from 11.0% in 2008. In spite of the extremely difficult economic conditions, we achieved an operating result (EBIT) of €149 million in fiscal 2009, compared with €323 million the year before. The decline in EBIT was also mitigated to some extent by lower exceptionals than in 2008.

The acquisition of the business activities of Gwalior in India and Jiangsu Polyols in China resulted in a small portfolio effect. These transactions extended the product portfolio of the Advanced Intermediates segment and further cemented LANXESS's position in two of the world's most important growth markets. The acquisitions, which were successfully completed in 2009, emphasize the continuation of our expansion strategy, even in a difficult economic environment.

The financial result declined by €40 million year on year, primarily due to the lower income from our investment in CURRENTA GmbH & Co. OHG, which is accounted for using the equity method, and to higher interest expense resulting from the extensive steps taken in fiscal 2009 to secure the Group's long-term liquidity.

In view of the operating performance described and as a result of exceptional items, especially in relation to the Challenge09-12 program, which was pivotal in offsetting the effects of the economic crisis, we generated net income of €40 million after €183 million in 2008.

Sales and earnings In fiscal 2009, sales of the LANXESS Group came to €5,057 million, a decrease of €1,519 million, or 23.1%, compared with the previous year. Adjusted for positive portfolio and currency effects – most notably from the stronger U.S. dollar – totaling 3.1%, operational sales fell by 26.2%. Volumes in particular receded by 14.7% even though several of our business units saw demand pick up again in the second half of the year. Selling prices retreated by 11.5% year on year because of lower raw material costs. A portfolio effect of 1.1% resulted from sales of the Petroflex group, which was acquired in 2008, and from the business activities of Gwalior and Jiangsu Polyols in Asia, both acquired on September 1, 2009.

Effects on Sales

Approximate data in %	**2009**
Price	(11.5)
Volume	(14.7)
Currency	2.0
Portfolio	1.1
	(23.1)

The contraction in demand caused by the crisis affected all of LANXESS's operating segments and pushed volumes down. Selling prices also tailed off. Although prices in the Specialty Chemicals segment remained stable on the whole, prices for synthetic rubbers and plastics and for basic chemicals fell sharply, due especially to raw material-indexed price adjustment agreements with customers. This effect was mitigated slightly in all segments by positive currency movements.

Sales by Segment

€ million	**2008**	**2009**	Change in %	Proportion of Group sales in %
Performance Polymers	3,280	2,388	(27.2)	47.2
Advanced Intermediates	1,310	1,104	(15.7)	21.8
Performance Chemicals	1,930	1,530	(20.7)	30.3
Reconciliation	56	35	(37.5)	0.7
	6,576	**5,057**	**(23.1)**	**100.0**

The Performance Polymers segment endured the steepest decline in 2009, with sales falling 27.2%. However, this was softened somewhat by the onset of a recovery in demand in the second half of the year. Overall, both selling prices – particularly due to much lower raw material costs – and volumes declined year on year by a double-digit percentage. Positive currency and portfolio effects from the acquisition of the Petroflex group in April 2008 only partly offset this trend. Sales in the Advanced Intermediates segment moved back 15.7%, chiefly as a result of lower volumes. This decrease was exacerbated by price reductions mandated by the price adjustment agreements that exist in some cases. The positive currency effects and the two portfolio additions in India and China had a modest offsetting effect. Sales in the Performance Chemicals segment slumped 20.7% due to the drop in volumes,

although selling prices remained stable. Here, too, a slightly positive currency effect had a mitigating effect.

As a result of the crisis, business receded significantly in most of LANXESS's sales regions. The only exception was the Performance Polymers segment in Asia-Pacific, which succeeded in topping the prior-year operational sales figure by 2.0%, thanks to its activities in China. In the other regions under review, all segments saw demand for their products fall, in some cases significantly, and selling prices were eroded as a result of lower raw material costs.

Gross profit The cost of sales in fiscal 2009 declined almost in line with revenues, down 22.7% to €3,956 million. The gross profit margin, at 21.8%, was down just slightly on the previous year. Lower selling prices were offset by the decreased costs of raw materials and energies.

To reduce its manufacturing costs, LANXESS launched the global Challenge09 program in early 2009 involving numerous technical measures and shorter working hours. This program was extended through 2012 as Challenge09-12 by successfully initiating and implementing additional measures.

LANXESS countered a clear under-utilization of production capacities with flexible asset and cost management in the context of this global program. We utilized a digital operating model to choose whether to operate plants or plant areas at full capacity or to temporarily shut them down. This greatly reduced production costs and helped us to achieve our goal of stabilizing margins while maintaining our "price before volume" strategy. By fine-tuning capacity management to match prevailing demand, LANXESS was able to avoid building undesired inventories and having to sell off surplus production in the market at unacceptable prices.

Capacity utilization continued to rise from the second half of the year onwards, increasing from around 60% at the start of 2009 to over 70% at year-end. In the last quarter of 2009, it therefore again slightly exceeded the prior-year level for the first time. The gross profit margin in the fourth quarter stood at 23.0%, still up on the average for 2009. The decrease in the gross profit margin from 23.5% for the third quarter of 2009 was attributable to the product mix and to the customary seasonal fluctuations that LANXESS experiences in a number of its customer industries.

EBITDA and operating result (EBIT) Challenge09-12 had a positive effect in all functional cost areas.

Selling expenses declined by €128 million to €530 million in fiscal 2009, mainly due to lower freight charges as a consequence of the decrease in volumes. The ratio of selling expenses to sales held almost steady at 10.5%.

By contrast, research and development costs increased by 4.1% to €101 million, further bearing out LANXESS's claim of developing innovative, customer-specific solutions even in economically challenging times. The ratio of research and development costs to sales rose from 1.5% in the previous year to 2.0%. The average number of employees in R&D increased from 441 in 2008 to 505 in 2009.

General administrative expenses fell from €270 million to €235 million in 2009, also due to the cost-cutting measures taken in response to the crisis. These expenses accounted for 4.6% of sales, up from 4.1% in the previous year.

Other operating expenses, net of other operating income, decreased substantially from €113 million to €86 million. The net exceptional charges of €55 million included in other operating expenses, of which €43 million impacted EBITDA, related mainly to personnel measures in connection with the Challenge09-12 program. They were also attributable to restructuring and efficiency enhancement measures at the LANXESS sites in Germany, Belgium, Brazil and Mexico, as well as to the implementation of IT systems. The reversal of unutilized provisions for previous restructuring and portfolio measures had a partial offsetting effect. Net exceptional charges of €139 million were reported in 2008. These were associated primarily with restructuring measures in Canada and Belgium.

The operating result before depreciation and amortization (EBITDA) pre exceptionals fell by 35.6% year on year to €465 million in 2009. The drop in selling prices was offset by lower raw material and energy costs. This large decrease is therefore attributable in particular to the downturn in volumes. Positive effects were generated by currency changes and, more notably, LANXESS's flexible asset and cost management in conjunction with the Challenge 09-12 program.

EBITDA Pre Exceptionals by Segment

€ million	2008	2009	Change in %
Performance Polymers	413	250	(39.5)
Advanced Intermediates	186	154	(17.2)
Performance Chemicals	241	182	(24.5)
Reconciliation	(118)	(121)	(2.5)
	722	**465**	**(35.6)**

2008 figures restated

EBITDA pre exceptionals of the Performance Polymers segment receded substantially. The reason for this was a significant drop in volumes. Steep price declines in the fiscal year were offset by lower raw material and energy costs and the Challenge09-12 program of measures. Earnings retreated perceptibly in the Advanced Intermediates segment as well, particularly as a result of diminished volumes and falling selling prices. Segment earnings were slightly buoyed by the successful acquisitions in Asia. EBITDA pre exceptionals of the Performance Chemicals segment also declined significantly. While lower raw material costs and a positive currency effect more than offset the slight decrease in prices, the volume losses that were especially apparent in this segment put considerable pressure on earnings.

The operating result (EBIT) amounted to €149 million in fiscal 2009, compared with €323 million the year before.

Reconciliation of EBIT to Net Income

€ million	2008	2009	Change in %
Operating result (EBIT)	**323**	**149**	**(53.9)**
Income from investments accounted for using the equity method	21	8	(61.9)
Net interest expense	(36)	(73)	> 100
Other financial income and expenses – net	(62)	(52)	(16.1)
Financial result	**(77)**	**(117)**	**(51.9)**
Income before income taxes	**246**	**32**	**(87.0)**
Income taxes	(63)	7	> 100
Income after income taxes	**183**	**39**	**(78.7)**
of which:			
attributable to non-controlling interests	0	(1)	–
attributable to LANXESS AG stockholders (net income)	**183**	**40**	**(78.1)**

2008 figures restated

Financial result The financial result came in at minus €117 million in 2009, compared with minus €77 million for the prior year. Income from investments accounted for using the equity method contains the interest in the net income of CURRENTA GmbH & Co. OHG. Net interest expense rose by €37 million to €73 million. The bonds placed during fiscal 2009 and the issuance of promissory notes to safeguard the Group's long-term liquidity pushed up interest expense correspondingly. The balance of other financial income and expenses in 2008 had been reduced by the write-down of the financial investment in INEOS ABS (Jersey) Limited. In the year under review, this stood in contrast to factors such as costs in connection with the repayment of existing financial liabilities and higher expenses for the interest cost of pension provisions.

Income before income taxes Due to the significant decline in EBIT and the receding financial result, income before income taxes fell by €214 million to €32 million.

Income taxes In fiscal 2009 the Group had tax income of €7 million, compared with tax expense of €63 million the year before. The positive tax effect was largely caused by varying regional contributions to earnings and the calculation of taxes using country-specific tax rates. This resulted in a negative tax rate, after an effective tax rate of 25.6% in the previous year.

Net income/Earnings per share The LANXESS Group's net income fell by €143 million year on year to €40 million. Minus €1 million was attributable to non-controlling interests. There was no income attributable to non-controlling interests in the previous year.

With the number of LANXESS shares in circulation unchanged, earnings per share decreased year on year from €2.20 to €0.48 because of the lower after-tax income.

BUSINESS TRENDS BY REGION

Sales by Market

	2008		**2009**		Change
	€ million	%	€ million	%	in %
EMEA (excluding Germany)	2,201	33.5	1,557	30.8	(29.3)
Germany	1,421	21.6	1,063	21.0	(25.2)
North America	1,074	16.3	781	15.4	(27.3)
Latin America	724	11.0	515	10.2	(28.9)
Asia-Pacific	1,156	17.6	1,141	22.6	(1.3)
	6,576	**100.0**	**5,057**	**100.0**	**(23.1)**

In the **EMEA** region (Europe, Middle East, Africa), excluding Germany, sales fell by a substantial 29.3% to €1,557 million. Adjusted for portfolio and currency effects, sales decreased by 29.5%, due mainly to the double-digit decline in sales of the Performance Polymers segment. This was mostly as a result of developments in the first half of the year, which saw sales in all business units plunge across the board. A noticeable recovery was registered in the second half-year, especially in the last quarter. Sales in the Performance Chemicals segment also declined sharply, a trend that persisted throughout the year. The Advanced Intermediates segment was unable to escape the downtrend, but the sales decline was only a low double-digit percentage. In geographical terms, sales developed unevenly across all segments. While business in western and eastern Europe was down by some 25%, the Middle East and Africa saw sales fall back even further.

The EMEA region (Europe, Middle East, Africa), excluding Germany, accounted for 30.8% of Group sales, down from the prior-year level of 33.5%.

In **Germany**, the LANXESS Group's sales came to €1,063 million in 2009, 25.2% less than the year before. This decline is attributable to a slightly disproportionate decrease in sales in the Performance Polymers and Performance Chemicals segments in particular. The Advanced Intermediates segment also saw its sales dwindle by a double-digit percentage, though substantially less than the other two segments.

Germany's share of total sales edged down from 21.6% to 21.0%.

Business in the **North America** region shrank by 27.3% in 2009 to €781 million. After adjustment for currency changes and portfolio effects, sales receded by 32.1% year on year. The Performance Polymers segment was hit hardest, with sales decreasing by a considerable double-digit percentage as a consequence of lower prices and volumes, especially in the first three quarters of the year. The Performance Chemicals and Advanced Intermediates segments fared somewhat better, with business retreating by a modest double-digit percentage.

The North American share of Group sales slipped from 16.3% to 15.4%.

In **Latin America**, LANXESS's sales dropped by 28.9% year on year to €515 million. Adjusted for currency and portfolio changes, the decline in sales increased to 38.7%. This deterioration impacted all major countries in this region and all segments, with the largest decreases in the Performance Polymers segment.

Latin America's share of Group sales receded slightly from 11.0% in the previous year to 10.2%.

The **Asia-Pacific** region proved to be a stabilizing force for LANXESS in 2009, with sales there falling just 1.3% against the previous year to €1,141 million. Adjusted for exchange rate and portfolio effects, sales dipped by a slightly higher 7.4%. Following a first quarter that saw revenues decline by a high double-digit percentage, the sales shortfalls became progressively smaller until significant year-on-year growth was reported in the last quarter. The Asia-Pacific region therefore proved to be very resilient in a persistently difficult market environment. The Performance Polymers segment in particular added 2.0% to its operational sales over the year, whereas the other segments still showed a negative trend. China, Korea and Hong Kong especially provided positive impulses in this region, in some cases posting double-digit growth rates. Japan and India, on the other hand, suffered revenue losses.

Asia-Pacific's share of Group sales increased substantially from 17.6% in the previous year to 22.6%, making it the Group's second-most important region after EMEA (excluding Germany).

SEGMENT INFORMATION

- Performance Polymers: robust margins in difficult times
- Advanced Intermediates: volume erosion compensated by flexible cost management and acquisitions
- Performance Chemicals: solid results in the crisis

Performance Polymers

	2008		**2009**		Change
	€ million	Margin %	€ million	Margin %	in %
Sales	3,280		2,388		(27.2)
EBITDA pre exceptionals	413	12.6	250	10.5	(39.5)
EBITDA	347	10.6	242	10.1	(30.3)
Operating result (EBIT) pre exceptionals	285	8.7	114	4.8	(60.0)
Operating result (EBIT)	208	6.3	105	4.4	(49.5)
Cash outflows for capital expenditures[1)]	178		133		(25.3)
Depreciation and amortization	139		137		(1.4)
Employees as of Dec. 31	4,672		4,375		(6.4)

1) Intangible assets and property, plant and equipment

Due to the global economic crisis, the **Performance Polymers** segment saw a steep decline in sales during 2009, which was mitigated to some extent by the onset of a recovery in demand in the second half-year. Sales decreased by 27.2% over the year as a whole. These lower revenues were due mainly to the downward pressure of 19.9% exerted on selling prices by a substantial drop in raw material costs. Volumes retreated by 11.3% year on year. Demand nevertheless rebounded in the second half of the year, halting the downward momentum seen in the first six months. A slight compensatory effect was generated by positive currency and portfolio effects of around 2% each that were attributable to the acquisition of the Petroflex group in 2008.

All of the segment's business units saw substantial falls in selling prices compared with the previous year. However, these were mitigated by lower costs for raw materials and energies. Selling prices in the segment moved upwards again in the second half of the year. Volumes also retreated in all business units in 2009. The segment saw demand decline considerably in nearly all regions. Only Asia-Pacific, especially China, was able to clearly escape the trend seen in other sales markets.

EBITDA pre exceptionals of the Performance Polymers segment fell sharply by 39.5% from €413 million to €250 million due to price and volume factors. In spite of the exceedingly difficult environment, this segment's EBITDA margin remained in double digits at 10.5%, down from 12.6% in the previous year. Price reductions were offset by lower raw material and energy costs as well as by savings attributable to the Challenge09-12 program of measures. Business units such as Butyl Rubber and Performance Butadiene Rubbers, which have a strong association with the tire industry, bore the brunt of these price cuts. The Semi-Crystalline Products business unit lifted EBITDA pre exceptionals in this segment, benefiting in particular from its highly integrated production network and competitive cost structures. The efficiency enhancements resulting from flexible asset and cost management in conjunction with the Challenge09-12 program cushioned the drop in earnings in all of the segment's business units. Capacity utilization improved perceptibly at the end of fiscal 2009, due to increased demand for replacement and winter tires, among other things. Raw material prices rallied at the same time. The stronger U.S. dollar compared with the previous year

also created a positive currency effect in the year under review.

Exceptional charges of €9 million were incurred in fiscal 2009, €8 million of which affected EBITDA. These related mainly to costs for personnel adjustments under the Challenge09-12 program and to secondary costs for the efficiency enhancement programs initiated in early 2008 at the sites in Canada, Brazil and Belgium.

Advanced Intermediates

	2008		**2009**		Change
	€ million	Margin %	€ million	Margin %	in %
Sales	1,310		1,104		(15.7)
EBITDA pre exceptionals	186	14.2	154	13.9	(17.2)
EBITDA	186	14.2	143	13.0	(23.1)
Operating result (EBIT) pre exceptionals	142	10.8	106	9.6	(25.4)
Operating result (EBIT)	142	10.8	95	8.6	(33.1)
Cash outflows for capital expenditures[1)]	62		53		(14.5)
Depreciation and amortization	44		48		9.1
Employees as of Dec. 31	2,530		2,858		13.0

1) Intangible assets and property, plant and equipment

Sales in the **Advanced Intermediates** segment receded €206 million, or 15.7%, to €1,104 million in 2009. The principal reason for this drop in sales was a 12.4% decline in volumes coupled with a 5.9% reduction in selling prices. Positive currency changes of 1.3% had a slight offsetting effect. The first-time consolidation of the businesses of Gwalior Chemical Industries Ltd. in India and Jiangsu Polyols Chemical Co. Ltd. in China, both of which were acquired in the third quarter of 2009, also resulted in a portfolio effect of 1.3%.

Business with agrochemicals remained relatively stable throughout the year and greatly supported segment revenue. The increase in demand for precursors for fungicides was a major contributory factor. Sales of pharmaceutical precursors moved back slightly, as did business with the automotive and related industries. The drop in raw material costs necessitated price reductions in the Basic Chemicals business unit under existing supply agreements. The fourth quarter of 2009 was dominated by the usual seasonality. In the agricultural business in particular, volumes were down on account of higher stocks held by customers.

EBITDA pre exceptionals of the Advanced Intermediates segment fell by €32 million to €154 million, a decrease of 17.2%, chiefly due to declining volumes prompted by sluggish demand. Price reductions at segment level were offset by lower raw material costs and savings attributable to the Challenge09-12 program. Segment earnings were buoyed by shifts in currency parities and the successful completion of the acquisitions in Asia, which brought the EBITDA margin up to 13.9%, close to the prior-year figure of 14.2%.

The segment's exceptional items of €11 million in fiscal 2009, all of which affected EBITDA, mainly related to costs incurred in connection with the Challenge09-12 program.

Performance Chemicals

	2008		2009		Change
	€ million	Margin %	€ million	Margin %	in %
Sales	1,930		1,530		(20.7)
EBITDA pre exceptionals	241	12.5	182	11.9	(24.5)
EBITDA	211	10.9	171	11.2	(19.0)
Operating result (EBIT) pre exceptionals	167	8.7	117	7.6	(29.9)
Operating result (EBIT)	129	6.7	100	6.5	(22.5)
Cash outflows for capital expenditures[1)]	82		80		(2.4)
Depreciation and amortization	82		71		(13.4)
Employees as of Dec. 31	5,021		4,675		(6.9)

1) Intangible assets and property, plant and equipment

Sales in the **Performance Chemicals** segment declined 20.7% in fiscal 2009 from €1,930 million to €1,530 million. After adjusting for positive currency effects of 1.8%, operational sales fell by 22.5%, due almost entirely (minus 21.3%) to lower sales volumes. Prices remained almost stable, declining by just 1.2%. None of the segment's business units was able to escape the year-on-year volume shrinkage. Business units that generate the bulk of their revenues with customers from the automotive and related industries were generally the hardest hit. These include the Rhein Chemie and Rubber Chemicals business units, both of which saw volumes decrease significantly in the year under review. In the Inorganic Pigments business unit, demand declined in the EMEA region in particular. However, this business unit succeeded in passing price increases on to the market in line with the "price before volume" strategy. The lowest sales decreases were reported in the Material Protection Products business unit. Declining volumes of wood protection products were partially offset by price increases and positive currency effects. In the Leather business unit, demand for leather chemicals dropped markedly, particularly in the first six months of the year. Although prices remained stable, segment volumes were down at year-end owing to seasonal fluctuations, especially because of weaker demand for biocidal agents and from the construction industry due to the hard winter.

EBITDA pre exceptionals of the Performance Chemicals segment fell back by a substantial 24.5%, from €241 million to €182 million. While lower raw material costs and a positive currency effect more than offset the price erosion, the volume losses significantly dampened EBITDA pre exceptionals. However, these effects were effectively countered by systematic reductions in manufacturing costs and the lower administrative and selling costs achieved by means of flexible asset and cost management in conjunction with the Challenge09-12 program. As a result, the EBITDA margin almost doubled year on year in the fourth quarter of 2009 although demand remained at a similar level. Segment earnings benefited mainly from activities in the Inorganic Pigments, Leather and Material Protection Products business units in particular, the latter being one of the few units able to lift EBITDA pre exceptionals in the year under review. The segment's EBITDA margin pre exceptionals of 11.9% fell slightly short of the 12.5% achieved in the previous year, due for the most part to the negative volume trends.

The segment's exceptional items of €17 million, €11 million of which affected EBITDA, included expenses in connection with the Challenge09-12 program of measures and, in particular, restructuring expenses in the Functional Chemicals business unit. This unit's colorants production at the site in Lerma, Mexico, will be transferred to existing facilities in Leverkusen, Germany. This will increase the competitiveness of the business unit's German production facilities as part of the global optimization of production

structures.

Reconciliation

€ million	**2008**	**2009**	Change
Sales	56	35	(37.5)
EBITDA pre exceptionals	(118)	(121)	(2.5)
EBITDA	(142)	(134)	5.6
Operating result (EBIT) pre exceptionals	(132)	(133)	(0.8)
Operating result (EBIT)	(156)	(151)	3.2
Cash outflows for capital expenditures[1)]	20	9	(55.0)
Depreciation and amortization	14	17	21.4
Employees as of Dec. 31	2,574	2,430	(5.6)

1) Intangible assets and property, plant and equipment

2008 figures restated

The exceptional charges of €18 million in fiscal 2009 reported in the **Reconciliation** table, of which €13 million impacted EBITDA, primarily related to expenses for restructuring activities and portfolio adjustments. Such expenses mainly included personnel adjustment costs, expenses for the closure or partial closure of facilities, and costs for the preparation and execution of corporate transactions, to the extent that these expenses and income cannot be allocated accurately to the segments or business units.

FINANCIAL CONDITION

- Solid structure of LANXESS's statement of financial position is the basis for facing further challenges in 2010
- Total assets increase as a result of bond issues and acquisitions
- Working capital lowered thanks to strict inventory management
- Net financial liabilities reduced to €794 million

Balance Sheet Structure

	Dec. 31, 2008		Dec. 31, 2009		Change
	€ million	in %	€ million	in %	in %
Assets					
Non-current assets	2,169	47.2	2,382	47.0	9.8
Current assets	2,423	52.8	2,686	53.0	10.9
Total assets	**4,592**	**100.0**	**5,068**	**100.0**	**10.4**
Equity and liabilities					
Equity (including minority interest)	1,339	29.2	1,445	28.5	7.9
Non-current liabilities	1,953	42.5	2,504	49.4	28.2
Current liabilities	1,300	28.3	1,119	22.1	(13.9)
Total equity and liabilities	**4,592**	**100.0**	**5,068**	**100.0**	**10.4**

2008 figures restated

Structure of the statement of financial position Total assets of the LANXESS Group rose by €476 million, or 10.4%, from the previous year to €5,068 million in 2009, primarily due to the issue of a €500 million benchmark Eurobond in April 2009 and to the acquisitions, effective September 1, 2009, of the businesses and assets of Indian chemical producer Gwalior Chemical Industries Ltd. and China-based Jiangsu Polyols Chemical Co. Ltd. Working capital declined, however, due to the lower demand year on year and strict cash and receivables management. At 47.0%, the proportion of total assets accounted for by non-current assets – the non-current asset ratio – remained almost unchanged on the prior-year figure of 47.2%.

Non-current assets rose by €213 million, or 9.8%, to €2,382 million. This was mainly attributable to a €214 million increase in intangible assets and property, plant and equipment to €2,005 million due to currency and acquisition effects. The first-time consolidations as of September 1, 2009 resulted in goodwill and other intangible assets of €28 million. Cash outflows for capital expenditures for property, plant and equipment and intangible assets were down at €275 million (2008: €342 million), while depreciation and amortization came to €273 million (2008: €279 million) in the same period, including €12 million (2008: €19 million) in impairments reported as exceptional items. The decrease in the carrying amount of investments accounted for using the equity method was due in particular to the distribution of the pro-rated earnings of CURRENTA GmbH & Co. OHG for 2008, an effect that this company's positive earnings in 2009 failed to compensate in full. Other non-current assets increased by €27 million compared with the previous year to €92 million, mainly due to the growth of plan assets associated with pension obligations.

Current assets increased by €263 million as against the end of 2008 to €2,686 million. The ratio of current assets to total assets rose from 52.8% in the previous year to 53.0%. Inventories were down by €199 million to €849 million. The reasons for this decline lay in the strict inventory management in response to lower demand in fiscal 2009. Days of sales in inventories (DSI) improved tangibly from 66.9 to 55.1. However, inventories were marginally increased in the fourth quarter of 2009 in view of the rise in demand compared with previous quarters. Trade receivables rose slightly by €8 million against the end of 2008 to €733 million due to the increase in business at the end of 2009 and to the acquisitions in India and China. There were no material defaults. At 47.0, days of sales outstanding (DSO) more or less matched the prior-year level of 44.6. Other current financial assets decreased due to the divestment of the financial interest in INEOS ABS (Jersey) Limited in the third quarter of 2009. Income tax receivables dropped by €25 million to €31 million after an earnings-based reduction in the advanced tax payments to

be made for 2009 and the resulting tax refunds. The total of cash, cash equivalents and near-cash assets rose significantly to €715 million, exceeding the 2008 year-end figure by €466 million, due in particular to the cash generated by the bond issue in April 2009 and the implementation of additional liquidity back-up measures.

Equity, including minority interest, amounted to €1,445 million, up from €1,339 million in the previous year. The equity ratio was 28.5%, down from 29.2% at the end of 2008. Among the factors in the equity increase were net income in 2009, the changes in the values of hedging transactions recognized in other income and currency translation adjustments. This positive effect was partially offset by the dividend payout to LANXESS AG stockholders in May 2009.

Non-current liabilities increased by €551 million, or 28.2%, to €2,504 million, mainly on account of the €500 million bond issue in April 2009. The proceeds of this and another bond issue in September 2009 were used to repay existing financial liabilities, enabling LANXESS to improve its debt maturity profile. The ratio of non-current liabilities to total assets was therefore 49.4%, a substantial improvement on the year-end 2008 figure of 42.5%.

Pension provisions increased due to the adjustment of the discount rates in 2009. However, a further €30 million in cash was paid into LANXESS Pension Trust e.V. in 2009 for the external financing of pension obligations under the contractual trust arrangement concluded in 2007.

Current liabilities declined by €181 million to €1,119 million, chiefly due to lower current liabilities to banks as well as to the decrease in the negative fair values of hedging transactions. Other current provisions fell on account of lower provisions for the annual variable compensation for employees. Trade payables remained flat on the previous year as a result of the slight upturn in business activity. The ratio of current liabilities to total assets was 22.1% as of December 31, 2009, down from 28.3% at year-end 2008.

Net financial liabilities decreased by €70 million, or 8.1%, from the previous year to €794 million in spite of the acquisitions concluded in India and China during the year and the allocation to LANXESS Pension Trust e.V. Strict operating management of inventories and receivables and consistent financial discipline were the principal drivers of this improvement.

The Group's key ratios developed as follows:

Ratios

in %		**2005**	**2006**	**2007**	**2008**	**2009**
Equity ratio	Equity[1] Total assets	28.9	34.0	37.7	29.2	28.5
Non-current asset ratio	Non-current assets Total assets	42.3	41.1	44.6	47.2	47.0
Asset coverage I	Equity[1] Non-current assets	68.4	82.5	84.4	61.7	60.7
Asset coverage II	Equity[1] and non-current liabilities Non-current assets	154.3	172.4	165.1	151.8	165.8
Funding structure	Current liabilities Total liabilities	48.9	44.0	42.3	40.0	30.9

1) Including minority interest

2008 figures restated

Capital expenditures LANXESS makes selective capital expenditures to increase its international competitiveness, focusing on attractive growth opportunities in highly profitable businesses. The goal is to enhance the premium nature of LANXESS products and services. Capital expenditures are made primarily in areas where the long-term perspectives are good and the expenditures sustainably improve our position. In regional terms, that meant the major growth regions of the world as well as Germany in 2009. Capital expenditure budgets were allocated to individual operating segments in line with strategic targets. As a rule, capital

expenditures are financed out of the cash flow from operating activities or, if that is insufficient, from other available liquidity or credit lines.
In 2009, capital expenditures for property, plant and equipment and intangible assets came to €342 million, compared with €356 million the year before. Cash expenses accounted for €275 million (2008: €342 million). Depreciation and amortization of €273 million (2008: €279 million) were incurred in the same period, including €12 million (2008: €19 million) in impairments reported as exceptional items. Adjusted for these impairments, capital expenditures exceeded depreciation and amortization by 31% (2008: 37%).

Capital expenditures focused primarily on measures to expand or maintain facilities or to increase plant availability, and projects to improve plant safety, enhance quality or comply with environmental protection requirements. About 67% of the capital expenditures in 2009 went towards expansion or efficiency improvement measures, while the rest went to replace existing facilities. This underlines our goal of generating further organic growth through investment.

In regional terms, 39% of capital expenditures in 2009 were made in Germany, 26% in the EMEA region (excluding Germany), 12% in North America, 5% in Latin America and 18% in Asia-Pacific. Substantial capital expenditures in Germany mostly comprised our investments to increase capacities and modernize facilities in the Saltigo and Basic Chemicals business units. By investing a further €22 million in Asia-Pacific, we underscored our corporate strategy of expanding our footprint in the growing markets of this region.

Cash outflows for capital expenditures in the Performance Polymers segment, at €133 million (2008: €178 million), were lower than depreciation and amortization of €137 million (2008: €139 million). The Butyl Rubber business unit additionally spent €38 million at the Zwijndrecht, Belgium, site to expand a combined heat and power (CHP) plant which is utilized on the basis of a finance lease and therefore did not result in a cash outflow on initial capitalization. Cash outflows for capital expenditures in the Advanced Intermediates segment came to €53 million (2008: €62 million), exceeding depreciation and amortization of €48 million (2008: €44 million). This figure includes investment by the Basic Chemicals business unit to expand the aromatics production network at the Leverkusen site. An investment of €29 million (2008: €14 million) was also made by the Saltigo business unit for the construction of facilities for major customers, who provided investment subsidies for this purpose. In the Performance Chemicals segment, cash outflows for capital expenditures came to €80 million (2008: €82 million). These expenses exceeded depreciation and amortization of €71 million (2008: €82 million). The capital expenditures related mainly to the construction by the Ion Exchange Resins business unit of a new ion exchanger facility at the site in Jhagadia, India, for products used in water treatment and the production of ultra-pure water.

The following table shows major capital expenditure projects in the LANXESS Group.

Major Capital Expenditure Projects 2009

Segment	Site	Description
Performance Polymers		
Butyl Rubber	Zwijndrecht, Belgium	Construction of a CHP plant involving a finance lease
Performance Butadiene Rubbers	Orange, Texas, United States	Restoration of production facilities damaged by Hurricane Ike
Semi-Crystalline Products	Antwerp, Belgium	Expansion of the caprolactam production facility to further strengthen the polyamide business
Advanced Intermediates		
Basic Chemicals	Leverkusen, Germany	Expansion of the aromatics production network
Saltigo	Leverkusen, Germany	Optimization of processes and plants and enhancement of process-related analytics
Performance Chemicals		
Inorganic Pigments	Porto Feliz, Brazil	Construction of a CHP plant for power generation from renewable resources
Ion Exchange Resins	Jhagadia, India	New ion exchanger facility for products used in water treatment and the production of ultra-pure water, start-up in 2010

Acquisitions On September 1, 2009, LANXESS India Private Ltd., Thane, India, acquired the chemical businesses of Gwalior Chemical Industries Ltd., headquartered in Mumbai, India. At the same date, the LANXESS Group also purchased the businesses and production facilities of Jiangsu Polyols Chemical Co. Ltd., Liyang, China. These activities, which are allocated to the Advanced Intermediates segment, were included in the consolidated financial statements of the LANXESS Group for the first time in the third quarter of 2009. Acquisition costs totaled €86 million. The integration has taken place according to plan. With these two acquisitions in Asia, we are underpinning our long-term growth strategy in the BRIC countries.

Liquidity and capital resources

Financial condition

- Solid operating cash flow in spite of a difficult economic environment
- Working capital management contributes to reducing net financial liabilities
- Capital expenditures financed out of operating cash flow
- Group liquidity reserve expanded significantly

The cash flow statement shows inflows and outflows of cash and cash equivalents by type of business operation.

Cash Flow Statement

€ million	**2008**	**2009**	Change
Income before income taxes	246	32	(214)
Depreciation and amortization	279	273	(6)
Other items	(59)	21	80
Net cash provided by operating activities before change in working capital	**466**	**326**	**(140)**
Change in working capital	26	239	213
Net cash provided by operating activities	**492**	**565**	**73**
Net cash used in investing activities	**(543)**	**(771)**	**(228)**
Net cash provided by financing activities	**115**	**258**	**143**
Change in cash and cash equivalents from business activities	64	52	(12)
Cash and cash equivalents as of December 31	249	313	64

2008 figures restated

Cash provided by operating activities, before changes in working capital, decreased by €140 million in fiscal 2009 to €326 million. Income before income taxes fell substantially compared with the previous year, with depreciation and amortization down slightly at €273 million (2008: €279 million). 2008 had been impacted by higher income tax payments.

Net cash provided by operating activities benefited from a decrease in working capital compared with December 31, 2008. This trend resulted mainly from the drop in demand during the year, lower raw material prices than at the start of the year and the avoidance of inventory build-up thanks to proactive asset management. Inventory levels increased marginally in the final quarter

of 2009 due to the unfolding recovery in demand coupled with improved capacity utilization.

LANXESS's investing activities in fiscal 2009 resulted in a cash outflow of €771 million, up from €543 million in the previous year. The increase was predominantly due to the short-term investment of liquid assets in money market funds. The acquisitions in Asia led to disbursements of €86 million. Cash outflows in 2008 had been higher owing to the acquisition of the Petroflex group. LANXESS paid out €275 million for intangible assets and property, plant and equipment, €67 million less than a year earlier. Cash inflows from the divestment of business activities came to €7 million in 2009, compared with €27 million for the divestment of the Lustran Polymers business unit in fiscal 2008. A further €30 million was paid into LANXESS Pension Trust e.V. in 2009 for the external financing of the company's pension obligations.

Net cash provided by financing activities came to €258 million, up €143 million year on year. This increase resulted mainly from the issue of two bonds in fiscal 2009 with an aggregate volume of €700 million and of promissory notes. Repayments of short- and long-term loans and the early repayment of just under €100 million of the €500 million benchmark Eurobond maturing in 2012 had an offsetting effect. In addition, a €42 million outflow was accounted for by the dividend paid to the stockholders of LANXESS AG in May (2008: €84 million). A further €53 million went for interest payments and other financial disbursements.

Cash and cash equivalents at the closing date amounted to €313 million, which was a substantial €64 million, or 25.7%, above the prior-year figure of €249 million.

LANXESS Group financing and ratings Access to the international capital markets and ensuring long-term financial flexibility again proved to be crucial success factors for companies in the recent financial and economic crisis. The rapid action taken by the business units to counter the slump in demand early on in the crisis and the prompt implementation of the Challenge09-12 program were among the main reasons why, even during the crisis, both Standard & Poor's and Moody's Investors Service kept LANXESS's ratings stable at the 2007 level of BBB and Baa2, respectively. A conservative financial policy in the form of secured long-term financing and substantial amounts of liquidity available at short notice also underpinned these ratings.

Development of LANXESS Ratings and Rating Outlook Since 2005

	2005	2006	2007	2008	2009
Standard & Poor's	BBB–/stable	BBB–/positive May 18, 2006 BBB–/stable Sept. 18, 2006	BBB /stable July 31, 2007	BBB /stable May 16, 2008	BBB /stable May 28, 2009
Moody's Investors Service	Baa3/stable May 31, 2005 (initial rating)	Baa3/positive June 12, 2006	Baa2/stable July 17, 2007	Baa2/stable July 25, 2008	Baa2/stable May 26, 2009
Fitch Ratings	./.	BBB /stable June 15, 2006 (initial rating)	BBB /stable May 31, 2007	BBB /stable Dec. 4, 2008	BBB /stable July 20, 2009

Although LANXESS was already on a very sound financial footing when the crisis began to unfold, extensive financing measures were implemented in fiscal 2009 to further improve the Group's financial position and secure its entrepreneurial flexibility.

LANXESS launched a €2.5 billion debt issuance program in March 2009. Using this documentation base, aligned with the prevailing market conditions, bonds can be placed very flexibly on the capital market. LANXESS Finance B.V. issued two new Eurobonds with an aggregate volume of €700 million under this program in 2009. Both issues are guaranteed by LANXESS AG. A €402 million bond issued in 2005 and maturing in 2012 is also outstanding. Further details are shown in the following table.

WKN	ISIN	Issuer	Principal in €	Coupon	Term	Documentation
A0E6C9	XS0222550880	LANXESS Finance B.V.	401,605,000	4.125%	June 21, 2005 – June 21, 2012	Individual documentation
A0T8NY	XS0423036663	LANXESS Finance B.V.	500,000,000	7.750%	April 9, 2009 – April 9, 2014	Debt issuance program

A1AMNM	XS0452802175	LANXESS Finance B.V.	200,000,000	5.500%	Sept. 21, 2009 – Sept. 21, 2016	Debt issuance program

LANXESS AG also issued promissory notes in 2009 with an aggregate volume of €130 million that mature in 2012 (€50 million) and 2013 (€80 million).

From the inflow of funds totaling €830 million, around €100 million of the €500 million Eurobond issued in 2005 was bought back from investors through a public repurchase offer. In addition, a bank loan totaling €250 million was successively repaid ahead of time. This was originally used to finance the acquisition of LANXESS Elastômeros do Brasil S.A. (formerly Petroflex Industria e Comercio S.A.) in 2008 and was scheduled to mature in April 2011.

All financing measures serve to improve LANXESS's debt maturity profile, create a stronger liquidity position in light of the financial crisis, and further diversify the financing portfolio. LANXESS's financing structure therefore does not need to be substantially refinanced in the coming years. The outstanding Eurobond of approximately €402 million from 2005 does not mature until June 2012.

On account of the extensive financing measures, financial liabilities less liabilities for accrued interest rose by €396 million in fiscal 2009, from €1,113 million to €1,509 million. At the same time, the cash position including near-cash assets increased by €466 million, from €249 million to €715 million. Net financial liabilities, which are total financial liabilities defined as such net of cash and near-cash assets, fell by €70 million, from €864 million to €794 million.

In addition to cash of €313 million and the investments in highly liquid AAA money market funds of approximately €400 million, LANXESS has an additional, sizeable liquidity reserve through the syndicated credit facility of €1,408 million arranged in November 2007 and still unutilized by the reporting date. This credit facility is designed as an operating line of credit and to provide funds for capital investment and is valid until November 2014. The contractual arrangements correspond to market requirements in the European syndicated loan market for investment-grade companies with a BBB rating. In addition to the rights and obligations of the parties to syndicated loan contracts, a financial covenant was also made to the group of banks for the duration of the credit facility. The essence of this is that the net financial debt excluding pension obligations must not exceed 3.5 times EBITDA pre exceptionals. As of December 31, 2009, the ratio of net financial liabilities to EBITDA pre exceptionals was 1.7, up from 1.2 in the previous year. Especially in view of the magnitude of the financial and economic crisis, this is a good indicator of our extremely solid financial management and testament to the existing financial scope under the credit facility arranged with our principal banks. In the year under review, refinancing measures enabled LANXESS to reduce the share of financial liabilities it has drawn on that are subject to financial covenants from 33% in 2008 to just 7% in 2009.

In addition to its syndicated credit facility, the LANXESS Group has other bilateral credit lines that generally have short-term commitment periods of 364 days and are used to finance day-to-day operations. LANXESS had unused credit lines of this nature totaling €1,538 million as of the December 31, 2009 reporting date.

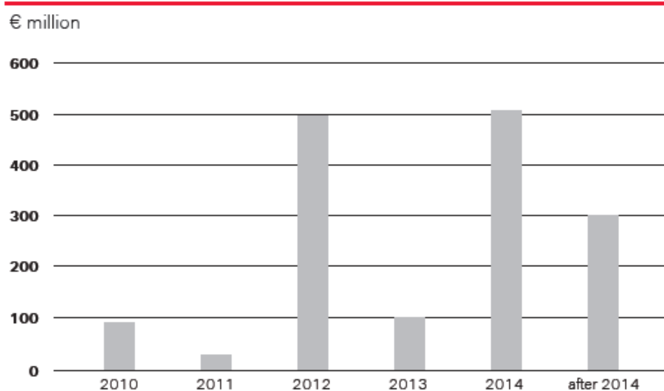
The investment loan of €100 million arranged in December 2008 with a fully amortizing structure will remain unchanged up to December 2018. This has been used to finance investment projects within the LANXESS Group.

The following overview shows LANXESS's financing structure as of December 31, 2009 in detail, including its principal liquidity reserves.

Instrument	Amount in €millions	Maturity	Interest rate in %	Financial covenant
Eurobond 2005/2012 (€402 million)	401	June 2012	4.125	no
Eurobond 2009/2014 (€500 million)	495	April 2014	7.750	no
Eurobond 2009/2016 (€200 million)	198	September 2016	5.500	no
Promissory notes	130	2012/ 2013		no
Investment loan	100	December 2018		<= 3.5[1)]
Other loans	81	n/a		no
Finance lease	96	n/a		no
Total financial liabilities	**1,509**			
Cash	313	<= 90 days		
Near-cash assets	402	<= 90 days		
Total liquidity	**715**			
Net financial liabilities	**794**			

1) Ratio of net financial liabilities to EBITDA pre exceptionals

On the reporting date, LANXESS therefore had unutilized liquidity reserves comprising cash and short-term cash investments of €715 million, after €249 million in the previous year, as well as committed and unused credit lines of €1,538 million, a total of €2,253 million. This provides liquidity scope of well over €2 billion, compared with a liquidity reserve of around €1.7 billion in 2008. The Group's solvency is safeguarded in the long term. Given the continuing volatility of the capital markets, this liquidity reserve is a reflection of our forward-looking financial policy.



Implemented in 2004 with an initial volume of €200 million, LANXESS Deutschland GmbH's asset-backed securities program was not utilized in fiscal 2008 or 2009. Owing to the continuing drain on liquidity and the poor shape of the ABS commercial paper markets since the onset of the financial market crisis in July 2007, we still do not regard this financing program as a reliable source of funding.

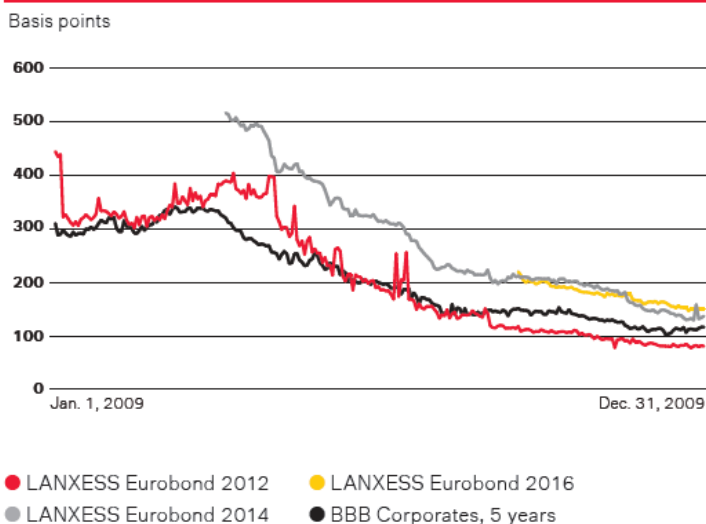
Finance leases are used to further diversify financing sources. These are reported as financial liabilities in the statement of financial position. As of December 31, 2009, this item amounted to €96 million, against €62 million in the previous year. The increase is mainly attributable to the conclusion of an agreement for the use of a combined heat and power (CHP) plant in Zwijndrecht, Belgium, which is reported as a finance lease of €38 million and consequently did not result in a cash outflow. Operating leases amounted to €75 million in 2009, against €70 million in 2008, and play only a secondary role in LANXESS's overall financing structure.

As of December 31, 2009, LANXESS had no material financing items not reported in the statement of financial position in the form of factoring, asset-backed structures or project financing, for example.

Of the €1,509 million in total financial liabilities as of December 31, 2009, some 97% bears a fixed interest rate over the term of the financing, compared with 90% in the previous year. Interest rate changes therefore do not have a material effect on LANXESS's financial condition considering the current financing structure.

LANXESS's average borrowing costs rose from 4.6% in 2008 to 5.4% in 2009 due to the issue of long-term loans and the substitution of bank loans.

Bond performance – Evolution of credit spread in 2009 An important indicator for corporate bonds, apart from the absolute change in price, is the relative valuation of the risk specific to the issuer in comparison to a reference interest rate. This valuation is expressed in what is known as the "credit spread." The chart below shows the evolution of the credit spread of the LANXESS bonds in comparison to the interest-rate swap curve and the average credit spread of corporate bonds with a BBB rating and a five-year maturity as reference.



Credit spreads were at historical highs in early 2009, reflecting the difficult market conditions and lack of liquidity on the international bond markets. These markets were closed at times, even to new bond issues by issuers with a strong credit rating. The bond markets opened up again from the second quarter of 2009 – a sign of a healthier macroeconomic and trading environment. Credit spreads recovered up to the end of 2009, when they slightly exceeded pre-crisis levels. Credit spreads of LANXESS bonds followed this general trend, though sometimes with a time lag due to increasing uncertainty among investors concerning economic trends in the chemical industry. LANXESS used the relaxation on the markets to place new bonds under its debt issuance program and demonstrated its excellent access to the capital markets by retaining a BBB rating in spite of a difficult environment.

Due to the higher risks associated with long-term bonds, credit spreads also rise in line with longer bond maturity. Factors such as liquidity and trading volume aside, this explains why LANXESS bonds have different credit spreads.

EMPLOYEES

As of December 31, 2009, the LANXESS Group had a total of 14,338 employees. This was 459 fewer than a year earlier, primarily as a result of ongoing efficiency enhancement programs in Germany, the United States, Mexico, Belgium and Brazil. In contrast, the number of employees in Asia rose due to acquisitions, which added 375 employees to the LANXESS Group.

In the EMEA region (not including Germany), the number of employees as of December 31, 2009 was 2,625, down from 2,703 in the previous year. In Germany, the headcount dropped from 7,772 to 7,626. The number of employees in North America declined from 1,464 as of December 31, 2008 to 1,261, while Latin America saw its workforce shrink from 1,412 to 1,152. At the reporting date, we had a higher payroll in Asia-Pacific, where the increase in the number of employees from 1,446 to 1,674 reflects the expansion of our activities in this region.

Personnel expenses totaled €981 million in fiscal 2009 (2008: €1,062 million). Wages and salaries, at €770 million (2008: €832 million), accounted for the greater part of this figure. Social security contributions were €162 million (2008: €166 million), while pension plan expenses totaled €45 million (2008: €60 million), and social assistance benefits came to €4 million (2008: €4 million).

Working conditions Our success is fundamentally based on the performance and commitment of our employees. The only way to reach our corporate goals and ensure our competitiveness is through focused and sustainable training and development of our employees. LANXESS has positioned itself favorably in the competition for the best skilled employees by encouraging an active sense of social responsibility, providing attractive jobs in an international environment and development opportunities, offering performance-based, market-rate compensation, and promoting a management culture based on open dialogue.

The top long-term human resources goal is to build a comprehensive employer brand that we aim to use worldwide to recruit, integrate and retain talented young executives and professionals for LANXESS. We have worked closely with our employees to develop the basis for an employer brand with the goal of formulating an authentic image of LANXESS.

The greatest short-term challenge during the year under review was the human resources aspect of dealing with the effects of the economic crisis. Wherever possible, we use tools such as worktime accounts and short-time working to preserve jobs, even when capacity utilization is low.

All employee groups worldwide showed solidarity in the adoption of the Challenge09-12 program, which included temporary, personnel-related cost-cutting measures to help ease the cost situation. Managerial employees around the globe waived annual salary adjustments as well as significant portions of their variable compensation. Non-managerial employees also played their part by foregoing variable compensation components, while further contributions, such as salary cuts through reduced weekly working times, were made by employees in Germany and other countries.

In fall 2009, QUEST, an internal qualification, deployment and job management center was established in Germany as a Group-wide job placement office for employees affected by the capacity reductions resulting from the crisis. Qualified consultants determine the strengths and weaknesses of these employees and provide additional training to equip them for other jobs at LANXESS or other companies. Within the short time from its inception to December 31, 2009, the center has been able to find new challenges for approximately 30% of the employees using its services. On average, a fifth of the workforce took up temporary positions inside and outside the LANXESS Group.

Compensation and Stock Plan We strive for a fair compensation system linked to our company's success and employees' individual performance. Compensation systems that include variable compensation components in addition to fixed remuneration have been implemented for more than 80% of our employees.

In 2009, 81% of managerial staff participated in the three-year Stock Performance Plan.

Vocational training Providing vocational training for young people is a high priority at LANXESS. It helps to safeguard the company's future and is an element of our social responsibility. In Germany, young people can opt to combine vocational training at LANXESS with university studies, or they can complete a traditional scientific, technical or commercial training program in our plants and departments. With a view to leveraging expertise and synergies, we are supported by the Training Department of our affiliate CURRENTA GmbH & Co. OHG for some aspects of theoretical training and for organizational and administrative functions.

Across Germany, 380 young people were being trained in 20 different career paths as of the reporting date December 31, 2009. Even in economically challenging times, LANXESS once again provided solid training opportunities for significantly more young people than were needed to meet the company's own requirements. With a training ratio of 5.6%, LANXESS outperformed the

industry average in this regard and also significantly exceeded the ratio specified in the collective agreement on training in the chemical industry. In total, we invest more than €11.5 million per year in initial vocational training. Despite declining employee numbers, we have directly or indirectly hired 175 trainees for temporary and permanent positions in recent years.

Under the slogan “Prepare for the future,” we attract particularly highly skilled university graduates for our international trainee program every year. Through the end of 2009, 28 highly qualified university graduates had taken part in various intakes of our trainee program. The aim is to prepare the participants for an international career within the LANXESS Group and establish a global pool of young managers with international experience.

Employee development We assign great importance to motivating employees throughout their entire career at LANXESS to undertake continuing professional development and accept new challenges within the Group. To promote the talents of individual employees, LANXESS has established a systematic, multi-stage process of global employee development conferences where future managerial employees from around the world are regularly evaluated with regard to their potential. In 2009, the LANXESS Academy continued promoting leadership and management skills with nearly all first- and second-level managers from around the world attending its modular programs as part of the uniform leadership system that has been in effect throughout the LANXESS Group since 2008.

Occupational safety The lost time injury frequency rate (LTIFR), known as MAQ (injuries for every million hours worked) in Germany, is the key indicator used to assess occupational safety within the LANXESS Group. The LTIFR in 2009 was 3.0, a slight improvement on the previous year (3.1). This shows a clear initial impact of our “Greater Sense of Safety” campaign which aims to encourage all employees to give more consideration to health and safety issues and our HSE directives.

Idea management When LANXESS employees have good ideas for improving work processes, safety and environmental protection, or for preventing errors, those ideas pay off. An idea management program systematically encourages suggestions for improvements to ensure that we will constantly be provided with new ways to improve cost-effectiveness, occupational safety and environmental protection. Our employees submitted a total of 1,876 suggestions in 2009, 370 of which related to occupational safety and environmental protection. The savings achieved by implementing these ideas totaled around €1.6 million.

COMPENSATION REPORT

The structure of the compensation system and the level of compensation for the members of the Board of Management are determined by the Supervisory Board. The appropriateness of compensation is regularly reviewed. The criteria for determining the appropriateness of compensation for an individual Board of Management member include, in particular, his duties, his personal performance, and the LANXESS Group's position and future prospects.

In addition to an annual base salary, fiscal 2009 compensation included two performance-based components linked to LANXESS's annual performance (the Annual Performance Bonus, or APB) and multi-year performance (the Long Term Incentive Program, or LTIP).

The fixed compensation comprises the annual base salary and remuneration in kind, the latter consisting mainly of the tax value of perquisites such as the use of a company car. The aggregate amount of these components came to €2,250 thousand in fiscal 2009.

The annual performance-based component is called the Annual Performance Bonus (APB), which is based on the Group's attainment of defined EBITDA targets and is equivalent to 115% of the annual base salary in the event of 100% target attainment. The maximum APB is capped at 150% of the amount of the compensation component to be calculated in this way. The amount expensed for performance-based APB payments totaled €1,342 thousand in fiscal 2009. Actual payments in 2010 may differ from this amount. The following table shows details of the compensation paid to individual members of the Board of Management of LANXESS AG:

Annual Compensation of the Board of Management

in € '000	Base salary	Variable component[1]	Total
Dr. Axel C. Heitmann	828	491	1,319
Dr. Werner Breuers	442	262	704
Dr. Rainier van Roessel	436	262	698
Matthias Zachert	544	327	871
	2,250	**1,342**	**3,592**

1) Payment in 2010

The LTIP is divided into three three-year tranches. For 2005 to 2007 it comprises the Stock Performance Plan (SP) and the Economic Value Plan (EVP). For 2008 to 2010, it consists only of the Stock Performance Plan.

The SP is linked to the performance of LANXESS stock against a reference index, the Dow Jones STOXX 600 Chemicals[SM]. The EVP is an incentive oriented toward an increase in the economic value of LANXESS's net assets. The reference for all three tranches of the EVP is the business plan for 2005 through 2007.

The requirement for participation in the LTIP is a prior personal investment in LANXESS shares amounting to 13% of the annual base salary per year. These shares are subject to a five-year lock-up period. The first award from the LTIP is made after three years, provided defined conditions are satisfied. In the event of 100% target attainment by the SP and EVP for 2005 to 2007, the payment per tranche will be 43.3% of the individual's target income, which is the fixed annual base salary plus the APB assuming 100% target attainment. For 2008 to 2010, 100% target attainment by the SP brings a payment per tranche of 50% of the individual's target income.

In light of the development of LANXESS stock and the reference index, SP entitlements from the LTIP for the period from 2005 to 2007 at the time of preparation of the annual financial statements would not result in any payment.

For more information, particularly regarding the valuation parameters applied, please see Note [13] to the Financial Statements.

The following table provides additional information about the LTIP compensation paid:

Long-Term Compensation of the Board of Management

	SP rights granted in 2009 (exercisable from 2012)		Accumulated SP rights earned in 2006–2009		EVP rights (exercisable from 2010 or 2011)[1]
	Number of rights	Fair values in € '000	Number of rights	in € '000	in € '000
Dr. Axel C. Heitmann	806,250	419	2,332,500	813	120
Dr. Werner Breuers	430,000	224	1,118,000	397	86
Dr. Rainier van Roessel	430,000	224	1,118,000	397	86
Matthias Zachert	537,500	280	1,555,000	542	80
	2,203,750	**1,147**	**6,123,500**	**2,149**	**372**

1) Payment in 2010 or possibly in 2011, depending on the decision of the Supervisory Board

The EVP entitlements reported in the table, which in principle are due to be paid in 2010, are subject to the proviso that the Supervisory Board of LANXESS AG may pass a resolution after preparation of the fiscal 2009 consolidated financial statements extending the term of the EVP for one year due to the unusual economic conditions. In this case, there would be no payouts from the EVP in 2010.

Of the EVP rights shown in the above table, 160.000 (carrying amount: €117 thousand) pertained to Dr. Heitmann, 114.667 (carrying amount: €84 thousand) each to Dr. Breuers and Dr. van Roessel, and 186,667 (carrying amount: €78 thousand) to Mr. Zachert as of the reporting date.

On termination of their service contracts, the members of the Board of Management receive benefits under the company pension plan. These benefits are paid when the beneficiary reaches age 60 or if the beneficiary is permanently unable to work. They are paid to surviving dependents in the event of the beneficiary's death.

The new pension plan set up in 2006 for the members of the Board of Management is a defined contribution plan stipulating a basic contribution of 25% of their respective annual base salary. Moreover, Board of Management members must set aside 12.5% of their APB award as deferred compensation. This amount is matched by LANXESS. From the date of entitlement, 70% to 75% of the accumulated capital is paid out in a lump sum. The remaining 25% to 30% is converted to a pension benefit. Claims arising from provisions in place before the new pension plan was established are granted as vested rights. If the service contract ends before the beneficiary reaches the age of 60, the company pays certain additional benefits up to a defined ceiling.

LANXESS has set up provisions for the future claims of Board of Management members. The total service cost recognized in the 2009 annual financial statements for this purpose was €622 thousand.

The following table shows details of the pensions for the individual Board of Management members.

Pensions of the Members of the Management Board

in € '000	Service cost	Annual pension benefits from date of entitlement	Accumulated interest-bearing capital
Dr. Axel C. Heitmann	196	240	1,832
Dr. Werner Breuers	167	100	532
Dr. Rainier van Roessel	69	100	632
Matthias Zachert	190	125	1,221
	622	**565**	**4,217**

Obligations to former members of the Board of Management totaled €6,352 thousand at December 31, 2009.

Payments of €276 thousand were made to former members of the Board of Management.

In fiscal 2009, the members of the Board of Management were entitled to indemnification should their service contracts terminate for defined reasons at the instigation of the company before they reach the age of 60 or in the event of a material change of control over the company. The terms depend on the respective circumstances and, in addition to contractual compensation for the remaining term of the service contract or transition benefits, also include severance payments amounting to up to two times the annual base salary plus the APB.

No additional benefits have been pledged to any Board of Management member in the event of termination of their service. In 2009, no member of the Board of Management received benefits or assurances of benefits from third parties in respect of their duties as Board of Management members.

No loans were granted to members of the Board of Management in fiscal 2009.

REPORT PURSUANT TO SECTION 315 PARAGRAPH 4 OF THE GERMAN COMMERCIAL CODE

Pursuant to Section 315 Paragraph 4 Nos. 1 to 9 of the German Commercial Code, we hereby make the following declarations:

1. The capital stock of LANXESS AG amounted to €83,202,670 as of December 31, 2009 and is composed of 83,202,670 no-par bearer shares. All shares carry the same rights and obligations. One vote is granted per share, and profit is distributed per share. The rights and obligations arising from the shares are governed by the German Stock Corporation Act.

2. We are not aware of any restrictions affecting voting rights or the transfer of shares. However, participants in employee stock plans are subject to a lock-up period on disposal of their shares.

3. Pursuant to Section 21 Paragraph 1 of the German Securities Trading Act, Dodge & Cox, San Francisco, California, USA 94104, informed us that, as of December 17, 2007, they had exceeded the threshold of 10% of the voting rights of LANXESS AG. We received no other reports of direct and indirect equity investments in the capital of LANXESS AG exceeding 10% of total voting rights.

4. No shares carry special rights granting control authority.

5. Employees hold a direct interest in the capital of LANXESS AG through employee stock programs. There are no restrictions on directly exercising the control rights arising from these shares.

6. Sections 84 and 85 of the German Stock Corporation Act and Section 31 of the German Codetermination Act apply to the appointment and dismissal of Board of Management members. Under the provisions of these sections, Board of Management members are appointed by the Supervisory Board for a term not exceeding five years. Such appointment may be renewed or the term of office may be extended, provided that the term of each such renewal or extension shall not exceed five years. Appointments require a majority of at least two-thirds of the Supervisory Board members' votes. Section 6 Paragraph 1 of the articles of association states that the Board of Management must consist of at least two members. Over and above this, the number of members of the Board of Management is determined by the Supervisory Board. The Supervisory Board may appoint a chairman of the Board of Management and a vice chairman of the Board of Management. Alternative members of the Board of Management may be appointed. The Supervisory Board may revoke the appointment of a member of the Board of Management or the appointment of a member as Chairman of the Board of Management for cause (Section 84 Paragraph 3 of the German Stock Corporation Act).

Section 179 of the German Stock Corporation Act provides that a resolution of the Stockholders' Meeting is required for any amendment of the articles of association. Pursuant to Section 17 Paragraph 2 of the articles of association, resolutions of the Stockholders' Meeting require a simple majority of the votes cast and, if a capital majority is required, a simple majority of the capital stock, unless otherwise required by law or provided by the articles of association. The articles of association contain no further provisions in this regard. Section 10 Paragraph 9 of the articles of association of LANXESS AG authorizes the Supervisory Board to resolve on amendments relating solely to the form of the articles of association.

7. Repurchase of own shares

   On May 7, 2009, the Annual Stockholders' Meeting of LANXESS AG issued an authorization, valid through November 5, 2010, to the Board of Management to purchase shares of the company up to a total of 10% of the company's capital stock for any legally permissible purpose. The company's affiliates as well as any third parties acting on the company's or its affiliates' behalf may also exercise this authority. At the discretion of the Board of Management, such shares may be acquired on the stock exchange or via a public purchase offer. The Board of Management is authorized to use them for any purpose permitted by law. In particular, it can retire the shares, sell them other than via the stock exchange or an offer to the stockholders, or transfer them against consideration in kind for the purpose of acquiring companies, parts of companies or equity interest in companies or in order to conclude mergers, or use them to satisfy conversion rights from convertible or warrant bonds or profit-participation rights or income bonds (or any combination of these instruments) issued by the company. Except when shares are retired, the subscription right of stockholders shall be excluded in the aforementioned cases.

   Conditional Capital I and II

   On May 31, 2007, the Annual Stockholders' Meeting of LANXESS AG twice authorized the Board of Management to issue, on one or more occasions through May 31, 2012, convertible bonds and/or warrant bonds, profit-participation rights, and/or income bonds (or any combination of these instruments), made out to the bearer or registered, with or without limited maturity, up to a total par value of €500,000,000 in either case, and to grant the bearers or creditors of such bonds conversion or option rights to

no-par bearer shares of the company up to a total value of €21,155,167 of the capital stock. As stated in Section 4 Paragraphs 3 and 4 of the articles of association of LANXESS AG, the capital stock of LANXESS AG has been increased conditionally up to the sum of €21,155,167 in each case in connection with these authorizations (Conditional Capital I and II). Each conditional capital increase serves the purpose of granting no-par bearer shares to the holders or creditors of convertible and/or warrant bonds, profit-participation rights, and/or income bonds (or any combination of these instruments). The only difference between the two authorizations to issue convertible and/or warrant bonds, profit-participation rights, and/or income bonds (or any combination of these instruments) in connection with the creation of conditional capital is the amount of the conversion or option price. Otherwise they are identical in content. The Board of Management will utilize just one of the two authorizations. When issuing the convertible and/or warrant bonds, profit-participation rights, and/or income bonds (or any combination of these instruments), the Board of Management is authorized, subject to the approval of the Supervisory Board, to exclude the subscription right of stockholders in the following cases:

- for residual amounts resulting from the subscription ratio;
- with issues against cash contributions, if the issue price is not significantly lower than the theoretical market value of the convertible and/or warrant bonds or mandatory convertible bonds, as determined using accepted pricing models. If bonds are issued by application of Section 186 Paragraph 3 Sentence 4 of the German Stock Corporation Act, the issued shares may not exceed 10% of the capital stock either at the time this authorization takes effect or at the time it is utilized;
- if the profit-participation rights or income bonds are vested with bond-like characteristics;
- if bonds are issued against contributions in kind for the purpose of acquiring companies, parts of companies, or equity interests in companies and the value of the contribution in kind adequately reflects the value of the bond; and
- to the extent necessary to grant no-par bearer shares of the company to the holders of conversion or subscription rights or to grant subscription rights to the creditors of mandatory convertible bonds in the quantities to which such parties would be entitled upon the exercise of the conversion or subscription rights or the conversion of the mandatory bond.

Authorized Capital

Pursuant to Section 4 Paragraph 2 of LANXESS AG's articles of association, the Annual Stockholders' Meeting on May 7, 2009 resolved to authorize the Board of Management, with the approval of the Supervisory Board, to increase the company's capital stock on one or more occasions through May 6, 2014 by issuing new no-par shares against cash or contributions in kind up to a total amount of €16,640,534. Stockholders are generally entitled to subscription rights when Authorized Capital is utilized. With the approval of the Supervisory Board, subscription rights can be excluded for residual amounts and in order to grant holders of warrants and convertible bonds issued by the company and its affiliates subscription rights to new shares in the quantities to which such parties would be entitled upon the exercise of their rights. Moreover, subscription rights can be excluded with the approval of the Supervisory Board when the company's capital stock is increased against contributions in kind, particularly for the acquisition of companies. Subscription rights can also be excluded with the approval of the Supervisory Board in order to grant holders of convertible and/or warrant bonds issued by the company or its affiliates new shares upon exercise of their rights. Finally, subscription rights can also be excluded with the approval of the Supervisory Board if the issue price of the new shares is not significantly lower than the stock market price at the time the issue price is fixed and the issued shares do not exceed 10% of the company's capital stock. Additional details are provided in Section 4 Paragraph 2 of the articles of association.

8. The service contracts between the company and the members of the Board of Management of LANXESS AG contain provisions regarding the potential departure of the members of the Board of Management in the context of a change of control. These are outlined in the Compensation Report in this Management Report. Such agreements, albeit with different terms, also exist between the company and members of the first and second levels of upper management. In addition, the terms of the €500 million Euro Benchmark Bond issued by LANXESS Finance B.V. in 2005 contain a change-of-control clause which gives bondholders the right to redeem the bond should certain events occur that affect its rating. The bond was guaranteed by LANXESS AG. The same applies to the terms of the €500 million and €200 million Euro Benchmark Bonds issued by LANXESS Finance B.V. in the 2009 fiscal year, which are also guaranteed by LANXESS AG. The company has signed agreements for loans with two major banks, each in the amount of €100 million. These agreements can be terminated without notice if another company or person takes control over more than 50% of LANXESS AG. The company also entered into an agreement with a syndicate of banks concerning a credit facility that is currently at €1,408 million. This agreement can also be terminated without notice if another company or person takes control over more than 50% of LANXESS AG. The same is true for four promissory note agreements in the aggregate amount of €130 million that the company arranged with four credit institutions. Furthermore, according to agreements between the company and LANXESS Pension Trust e.V., the company is obligated to make considerable payments to LANXESS Pension Trust e.V. in the event of a change of control.

9. The service contracts between the company and the members of the Board of Management of LANXESS AG as well as between the company and members of the first and second levels of upper management of LANXESS AG contain compensation agreements applicable in the event of a change of control, as such change is more particularly described in the respective

contracts. A takeover bid in and of itself is not considered a change of control for these purposes.

PROCUREMENT AND PRODUCTION

Procurement LANXESS uses a centrally managed global procurement organization to ensure a reliable supply of materials and services. Global Categories coordinate with the business units to pool requirements. A worldwide procurement network helps them leverage purchasing synergies, so that LANXESS can move efficiently in the market and exploit price advantages. We avoid delivery bottlenecks or reliance on individual suppliers using techniques like multiple sourcing. LANXESS systematically applies best-practice processes. These include e-procurement tools, such as e-catalogs and electronic marketplaces, many of which are integrated into the company's internal IT systems. About 45% of all items ordered are now handled through e-procurement.

Our HSEQ management process begins with the procurement of raw materials and services. LANXESS expects its suppliers to comply with all applicable national and other laws and regulations on safeguarding the environment, ensuring health and safety in the workplace and using appropriate labor and hiring practices. These criteria also play an important role in our selection and evaluation of suppliers. Regular supplier audits conducted in Germany and abroad help verify compliance with these regulations. Internally, a global procurement directive defines how LANXESS staff should behave towards suppliers and their employees.

Procuring chemical raw materials is a significant priority at LANXESS. The biggest suppliers here in 2009 included BASF, Bayer, BP, Braskem, Chevron Phillips, Evonik, Exxon Mobil, INEOS, LyondellBasell, Nova Chemicals, Sabic, Shell Chemicals, Texas Petrochemicals and Total.

Among the most important strategic raw materials by far for our production operations in 2009 were ammonia, 1,3-butadiene, crude butadiene, crude raffinate II, chlorine, cyclohexane, isobutylene, caustic soda, toluene and styrene. In all, strategic raw materials accounted for a purchasing volume of about €1.4 billion in fiscal 2009 (2008: about €2.4 billion), or around 61% of the LANXESS Group's total expenditure for raw materials and goods in 2009, which amounted to approximately €2.3 billion. The total procurement volume in 2009 was around €3.2 billion (2008: about €4.5 billion).

Production LANXESS is one of the world's major producers of chemical and polymer products. Our production facilities make anywhere from very small batches of custom-synthesized products to basic, specialty and fine chemicals and polymers in quantities of several ten thousand tons.

Each of the Group's production facilities is organizationally assigned to an individual business unit. The most important production sites are at Leverkusen, Dormagen and Krefeld-Uerdingen, Germany; Antwerp, Belgium; Baytown, Texas, United States; Sarnia, Ontario, Canada; and Wuxi, China. LANXESS also has other production sites in Argentina, Australia, Belgium, Brazil, China, France, Germany, India, Italy, Japan, South Africa, Spain, the United Kingdom and the United States.

The following changes occurred in our global production network in 2009:

- The Basis Chemicals business unit expanded its production network to include two new sites after the acquisitions of Gwalior in India and Jiangsu Polyols in China.
- In Wuxi, China, a new production facility was started up by our Leather business unit.
- The Functional Chemicals business unit will move its colorants production from Lerma, Mexico, to Leverkusen, Germany.

In the past fiscal year, we invested €342 million, primarily in maintaining and expanding our production capacities. Additional information is given under “Capital expenditures” in the Financial Condition section.

SALES ORGANIZATION AND CUSTOMERS

Sales organization LANXESS sells its products all over the world, to several thousand customers in more than 150 countries across all continents. LANXESS's long-standing customer base includes leaders in each of its user industries. We have well-established customer relationships in all sales regions. To meet our customers' needs, we have set up very flexible marketing and sales structures. Sales are managed throughout the world through 44 companies owned by LANXESS itself. In countries where LANXESS does not have its own company, we work with local sales partners.

To keep as close as possible to customers and ensure they receive individual support, the LANXESS business units each manage their own sales organizations. Another competitive advantage for LANXESS is provided by our 43 production sites in 16

countries. Wherever possible, customers are supplied from production sites in the same region, which saves them both time and money.

Our new Russian sales and marketing company with its main administrative office in Moscow started operating in early 2009. Initially, the company will focus on selling high-performance rubber and high-tech plastic products in Russia and the Commonwealth of Independent States (CIS). We also opened an office in Kiev, Ukraine.

We are moving the global headquarters of the Butyl Rubber business unit to Singapore, in parallel with the construction of the new butyl rubber production facility there. The business unit's administration will move from Fribourg, Switzerland, to the southeast Asian metropolis during 2010. In the initial phase of the move, around 35 employees will work in the unit's marketing, controlling and purchasing functions. With this move we are responding to the increasing importance of the Asian market, where China, India and South Korea in particular are showing strong growth rates.

Orders worth some €0.8 billion, or 15.8% of total sales, were processed via e-business in fiscal 2009. This capability is provided by the "LANXESS one" and "LANXESSDirect" Internet tools and the Elemica network. Compared with the previous year, the share of total sales accounted for by e-business dropped by 1.5 percentage points. The decline resulted from the decreased sales volumes in fiscal 2009 and the changes in the exchange rate between the euro and the U.S. dollar. As in the previous year, the share of sales handled via e-business amounted to approximately 25% of all sales orders. Altogether, over 240,000 orders in the areas of purchasing, sales and logistics are handled as e-business.

Selling costs for fiscal 2009 came to 10.5% of LANXESS Group sales, close to the previous year's level (10.0%).

Customers Because of its many products and lines of business, LANXESS has business relationships with a vast range of customers all over the world. They need an individualized, well-focused approach, which we are able to provide because our sales organizations are managed through the business units. Individual marketing strategies are reviewed on the basis of regular customer satisfaction surveys.

LANXESS serves the following industries in particular: tires, chemicals, automotive supply, plastics, electronics, agrochemicals, pharmaceuticals, food, water treatment, construction and furniture.

Shares of Sales by Industry Sector

in %	**2009**
Tires	~ 25
Chemicals	~ 20
Automotive	~ 15
Construction, electrical/electronics, life science, leather/footwear	in each case 5 – 10
Others (cumulative share)	~ 10

In fiscal 2009, the LANXESS Group's top ten customers accounted for about 25% of total sales as in the previous year. 28 (2008: 30) customers accounted for annual sales in excess of €20 million. The slight decrease is due to the effects of the economic crisis and the resulting reduction in purchasing volumes by key accounts.

The number of customers in each segment varied widely. The Performance Polymers segment had some 4,000 customers in 2009 (2008: 4,200), while Advanced Intermediates and Performance Chemicals had about 2,800 (2008: 2,900) and 15,500 (2008: 17,500), respectively. This information is based on the number of customers invoiced in each segment. Each segment includes all customer groups and sales volumes. However, one customer may do business with more than one segment.

The comparatively low sales per customer in the Performance Chemicals segment, as well as its broad customer base, reflect the way in which its business often involves custom-tailored solutions in specialty chemistry. The substantially lower number of

customers in the Performance Polymers segment, which generates relatively high sales, is likewise typical of the synthetic rubber products business. This extensive customer base means that no segment can be considered dependent on just a few customers.

RESEARCH AND DEVELOPMENT

In 2009, LANXESS focused more closely on research and development than ever before. To this end, at the start of the year we set up the new Innovation Group Function, which reports directly to the Board of Management. This new unit's mission is to serve as the central coordinator for the Group's research and development activities and to drive forward the development of new products. Working together with the 13 manufacturing business units and their R&D departments, production processes will be optimized and new products and applications developed to ensure LANXESS's ongoing success in the high-growth business segments of the future.

Our total research and development expenditures in 2009 amounted to €101 million, or 2.0% of sales (2008: €97 million, or 1.5% of sales). The Saltigo, Butyl Rubber, Technical Rubber Products and Semi-Crystalline Products business units accounted for the largest share of these expenditures at 55% in 2009 (2008: 58%). As in the previous year, Saltigo, Material Protection Products and Ion Exchange Resins were the business units most active in research in terms of their ratios of research and development expenses to sales.

LANXESS research and development laboratories worldwide had an average of 505 employees in fiscal 2009 (2008: 441 employees). Our largest research and development units are at the sites in Leverkusen, Krefeld-Uerdingen and Dormagen, Germany; London, Ontario, Canada; and Qingdao and Wuxi, China. As planned, our new global center of excellence for materials research at the University of Western Ontario Research Park in London, Ontario, Canada, began operating in 2009. We also successfully completed the expansion of our research and development center for high-performance rubber in Qingdao, China.

In 2009, we conducted approximately 160 research and development projects, around 125 of which aimed to develop new products and applications or improve existing ones. The remaining 35 projects concerned process technology issues with a view to reducing costs, improving efficiency or increasing capacities. Roughly 65% of the research and development projects started in 2009 are scheduled to reach the market or technical implementation stages by the end of 2010.

The results of our research and development work are protected by patents, where this is possible and expedient. In the course of 2009, we submitted 89 priority applications worldwide (2008: 100). As of December 31, 2009, the full patent portfolio includes approximately 1,000 patent families covering around 5,950 property rights.

Our research and development activities are closely allied to the needs of the market and our customers. Organizationally, the LANXESS Group's research and development units are assigned to the individual business units. For example, business units with a large proportion of commodities (products in very mature markets), such as Basic Chemicals, concentrate on constantly improving their production facilities and processes (process optimization). Other business units focus their research and development activities more on optimizing products and product quality and developing new products to meet market requirements and customers' special needs.

The high level of spending in the Saltigo business unit is predominantly related to its custom manufacturing services, which involve the development of tailor-made manufacturing processes for customer-specific intermediates as well as the actual production of the corresponding products. The customers for these services are primarily pharmaceutical companies, manufacturers of agrochemicals, and companies that market chemical specialties such as electronic chemicals, fragrances and flavorings.

Due to the European Union's express promotion of environmentally friendly tires, the research activities of our Butyl Rubber and Technical Rubber Products business units are specifically centered on new types of high-performance rubber and additives for the tire industry. The goal is to extend the magic triangle of tire technology, combining low rolling resistance with good wet grip and long service life.

One focal point of research in the Semi-Crystalline Products business unit is the development of solutions and materials for use by the automotive industry in lightweight vehicle constructions designed to replace metal parts in vehicles and thereby cut fuel consumption.

The Innovation Group Function complements this research work with new longer-term, cross-business unit projects to ensure that potential synergies are exploited to the fullest and innovations can be applied in various LANXESS units.

Basic research at LANXESS is conducted mainly via alliances with universities and research institutes. Generating knowledge in this way is substantially more efficient and cost-effective than if the company were to maintain its own resources for this purpose. In 2009, the company had a total of 83 major research and development alliances, 37 of which were with universities, 37 with

suppliers or customers, and 9 with research institutes.
The new Innovation Group Function's research focuses on process and product innovation.

Process innovation bolsters our efforts to develop new processes and integrate new technologies into existing workflows with the aim of achieving cost leadership. Compared with previous years, we again stepped up reviews of current production processes using mathematical methods in order to pinpoint optimization potential. This approach enabled us to identify considerable savings on raw materials and energy and, in some cases, already economize in these areas.

In contrast, product innovation concentrates on developing new products, new applications for existing products and product modifications. The search for new products is more broadly based than the research activities in the business units, and has a medium- to long-term time horizon. Our research goals are derived from foreseeable global megatrends, such as the dwindling availability of energy, water and raw materials as well as from forward-looking, innovative technologies. In the first year of existence of the Innovation Group Function, we already transformed a large number of project ideas into concrete projects with the help of standardized processes. These are regularly evaluated with regard to their technological and financial attractiveness. Our broad network of external partners was expanded through the establishment of new alliances with universities, institutes and leading companies in various fields such as biotechnology, nanotechnology, microtechnology and membrane technology. Initial laboratory testing was conducted in LANXESS's own laboratories.

The importance of research and development to the company was underscored by the LANXESS Innovation Day, which was held for the second time in 2009. As in the previous year, more than 200 participants from LANXESS research and development centers worldwide presented outstanding work from recent years. The four best projects were honored with innovation awards in a company competition. The 2009 awards went to a new easy-to-clean special coating for leather that prevents soiling, new rubber compounds for vehicle tires and a process for removing arsenic from drinking water.

Overall, research and development plays a significant role in increasing LANXESS's competitiveness and expanding the company's business through the development of innovative, original processes and products. This is particularly true during economically challenging times such as were experienced in 2009.

CORPORATE RESPONSIBILITY

LANXESS's guiding principles are essentially shaped by a sense of corporate responsibility. In our business activities we strive to take account of the demands of economics, ecology and society in equal measure – in the interests of sustainable development. Accordingly, this issue is firmly anchored in LANXESS's organization, requiring everyone in the company to adopt a responsible attitude in dealing with people, the environment and capital. In practice, this means that we always apply our high sustainable management standards in making entrepreneurial decisions.

In spring 2006, LANXESS became one of the signatories to the Responsible Care® Charter that was adopted by the International Council of Chemical Associations as a significant step toward sustainable development. Our corporate directives on quality and environmental policy ensure that the principles of the charter are central to the way we do business. Moreover, our Corporate Compliance Directive is a code of legal compliance and responsible conduct that is binding on all LANXESS employees and commits them to act in accordance with the law, apply the principles of Responsible Care and demonstrate ethical conduct.

Product responsibility and environmental management We expressly support the protection goals of E.U. chemicals policy. Having pre-registered all the substances affected by the REACH regulation, on schedule, by December 1, 2008, we are currently working on compiling the dossiers for the first transition period up to December 1, 2010. In addition to REACH, there is another important regulation in E.U. chemicals policy – the CLP Regulation – which serves to implement the international GHS initiative in the European Union. The objective of GHS is the global harmonization of existing classification and labeling systems used in various sectors, such as transportation and consumer, employee and environmental protection. The CLP Regulation (also sometimes referred to as the GHS Regulation) stipulates the classification and labeling of all chemical substances in the E.U. by December 1, 2010. LANXESS is seeking to implement both regulations simultaneously in order to benefit from the resulting synergies.

Our global, integrated management system is a key factor in LANXESS's success. In just a few years, we have established an ambitious quality and environmental management system worldwide. The same international management standards in line with ISO 9001 and ISO 14001 apply everywhere, and compliance is verified by external, independent auditors. In 2009, more than 90% of all the relevant LANXESS sites worldwide were already certified. This did not include sites that were added to the company during the course of 2009.

Environment data We use an electronic system for the systematic global recording of key performance indicators (KPIs) in the areas of health, safety and environmental protection. Data are gathered at all LANXESS sites in which the Group has a majority holding and all LANXESS production sites are included. In May 2008 and July 2009, auditors Deloitte verified the validity of the data recording system and the data it generates (limited assurance).

Social commitment Our not-for-profit activities focus on providing support for education in schools and universities. In 2008, we launched an extensive education initiative in North Rhine-Westphalia that underscores our clear commitment to Germany as a business location – and in particular to North Rhine-Westphalia as a base for the chemical industry. We provide funding to schools in Leverkusen, Dormagen, Krefeld-Uerdingen and Cologne. We also champion the promotion of scientific knowledge among students at our international locations. We strengthened this commitment during the year under review with new projects in Brazil, India and South Africa.

LANXESS is one of the world's leading suppliers of products for the purification and treatment of water. The expertise acquired by our Ion Exchange Resins and Inorganic Pigments business units over the decades enables them to play a key role in resolving the world's water issues. Using this expertise for charitable purposes is a further focus of our social commitment.

RISK REPORT

Risk management Risk management is important for LANXESS because business activity necessarily entails risks as well as opportunities. The LANXESS Group's success is significantly dependent on identifying both opportunities and risks and actively managing them. Effective risk management is therefore a core element in safeguarding the company's existence for the long term and ensuring its successful future development. LANXESS's risk management activities are based both on internal organizational workflows, which are managed by way of control and monitoring mechanisms, and on early warning systems that are used to closely observe changes in external conditions and systematically implement the appropriate measures. Like all methods for dealing with business risk, this system does not offer absolute protection. However, it does serve to prevent business risks from having a material impact on the company with a sufficient degree of certainty.

LANXESS's risk management approach is based on clearly defined business processes, the precise assignment of responsibilities throughout the Group, and reporting systems that ensure the timely provision of the information required for decision-making to the Board of Management or other management levels. The company's risk management system is based on an integration concept, i.e. the early identification of risks is an integral part of the management system and not the object of a separately organized early warning system. The risk management system comprises many different elements that are embedded in the overall structural and process organization. Risk management is viewed as a primary duty of the heads of all business units, as well as of those people in Group companies who hold process and project responsibility. Risk management is incorporated into business processes primarily through the company's organizational structure, its planning, reporting and communication systems, and a body of detailed management regulations and technical standards. Various committees and other bodies discuss and monitor opportunities and risks.

At LANXESS, the business units each conduct their own operations, for which they have global profit responsibility. Group functions and service companies support the business units by providing financial, legal, technical and other centralized services. Complementing this global alignment of the business units and group functions, the country organizations ensure the required proximity to markets and the necessary organizational infrastructure. In line with this division of duties, LANXESS has assigned responsibility, i.e. defined the risk owners, for the following

- risk identification and analysis,
- risk prevention (measures taken to avoid, minimize or diversify risk),
- risk monitoring (e.g. on the basis of performance indicators and, perhaps also, early warning indicators),
- risk mitigation (measures to minimize damage upon occurrence of a risk event) and
- communication of the key risks to the management committees of the business units and group functions.

Risk transfer transactions (hedging transactions or insurance) are entered into and managed centrally at LANXESS via the Treasury Group Function.

Due to the highly integrated nature of our general business processes, we have specialized committees composed of representatives of the business units and group functions who deal with issues concerning the Group's risks and opportunities. This enables LANXESS to react quickly and flexibly to changing situations and their influence on the company.

The Corporate Controlling Group Function collects and aggregates key information across the Group. Opportunities and risks are identified three times per year during the intrayear forecasting process and additionally one time per year as part of the budget and planning process for the subsequent year and the medium-term forecast horizon. The reported opportunities and risks are collected in a central risk database and regularly analyzed for the Board of Management and Supervisory Board. This ensures that when new risks and opportunities arise that could have a material effect on LANXESS or when existing ones change substantially, the necessary information can be communicated in a timely manner all the way to the Board of Management and therefore also specifically integrated into the general management of the company.

The reporting threshold for opportunities and risks is an effect of €1 million on the Group's net income or EBITDA, taking into account a minimum probability of occurrence. This low reporting threshold guarantees that the information gathered about opportunities and risks is comprehensive and, even in the data collection phase, that this information is not just limited to material risks or risks that could jeopardize the future of the company as an ongoing concern. Instead, the Corporate Controlling Group Function centrally determines the top opportunities and risks later in the process. The threshold for material risks has been defined at €10 million for the Group.

Apart from regular, centralized collection and documentation of business risks, corporate planning is another core element of opportunity and risk management at LANXESS. Opportunities and risks with a likelihood of occurrence greater than the specified minimum probability flow directly into the planning process. Forecasts are prepared and those risks and opportunities considered relatively likely to materialize are presented as worst-case/best-case scenarios. The processes for corporate planning and intrayear forecasting as well as the corresponding analyses and suggestions for action are steered by the Corporate Controlling Group Function, which works closely in this regard with the business units. Certain Board of Management meetings are dedicated to discussing and adopting corporate planning, including the associated opportunities and risks. Each fiscal year, the annual plan is adjusted and monitored by regularly recording current expectations. Significant and strategic opportunities and risks are systematically analyzed and evaluated by the Corporate Development Group Function with the goal of ensuring that the Group is pursuing the correct long-term strategy.

There is also provision for immediate internal reporting on specific risk issues such as significant corporate compliance violations. In 2009, there was no cause for immediate reporting of this kind on significant risks at LANXESS.

LANXESS's risk management principles are laid down in a Group directive. Risk management also includes preventing illegal conduct by our employees. To this end, we obtain extensive legal advice concerning business transactions and obligate employees by means of our compliance code to observe the law and to act responsibly. A Compliance Committee promotes and monitors adherence to these compliance guidelines. Its work is supported by compliance officers who have been appointed for each country in which LANXESS has a subsidiary. The Compliance Committee is chaired by a compliance officer, who reports directly and regularly to the Board of Management.

LANXESS considers the motivation of its employees to be a key factor in exploiting opportunities. For this reason, we highly value a corporate culture which fosters the search for and implementation of new possibilities. One component of this effort is providing a financial reward for ideas submitted via the company's idea management system.

LANXESS has acknowledged that managing the company necessarily involves managing risk. Steps have been taken to ensure that potential risks or opportunities relevant to the attainment of corporate goals are fully identified and quantified at an early stage. Preventive measures and safeguards minimize the probability that risks will materialize and limit their potentially adverse effects. The management of opportunities and risks is one of LANXESS's goals and therefore constitutes an integral part of decision-making processes.

Accounting aspects of the internal control and risk management system The aspects of the internal control and risk management system relating to the accounting process include the principles, procedures and measures required to ensure the effectiveness, efficiency and propriety of the company's accounting, and compliance with applicable legal regulations. To this end, the LANXESS Group has implemented clear organizational, control and monitoring structures. The distinctive features of the chemical industry and the risk management tools used regularly by LANXESS in this regard are taken into account. In addition to the accounting process in its narrower sense, this also includes the aforementioned structured budget and forecasting process, and extensive contract management. However, the effectiveness and reliability of the internal control and risk management system can be restricted by discretionary decisions, criminal acts, faulty controls or other circumstances. Thus, even if the system components used are applied Group-wide, complete security in terms of the true, correct and timely recording of accounting issues cannot be guaranteed.

The Accounting Group Function, which reports to the CFO, is responsible for the accounting process and therefore for preparing

the LANXESS Group's consolidated and single-entity financial statements. Consolidated interim financial statements are prepared each quarter. The condensed consolidated half-yearly financial statements are reviewed, while the consolidated financial statements are subjected to a full audit by the auditor of the Group's financial statements.

The control and monitoring of the Group's accounting processes ensure that generally accepted accounting practices in line with the applicable laws and standards, particularly International Financial Reporting Standards (IFRS), are applied at LANXESS and guarantee the reliability of the company's financial reporting. The accounting-related internal control system used by the LANXESS Group is based on generally accepted standards (COSO model). There were no material changes to this system during the period under review. Corresponding standards also apply to the single-entity financial statements of the subsidiaries. Financial statement preparation is based on a structured process that includes specifying a financial statement calendar as well as regular reviews of the completeness of the scope of consolidation. The principle of the separation of functions as expressed in structured authorization and approval procedures and the dual-control principle as well as continual plausibility testing is applied end-to-end throughout the preparation and consolidation process.

The foundation for uniform and IFRS-compliant consolidated financial reporting at LANXESS is the Group Financial Statements Guideline. This governs the way the IFRS rules applicable to the Group are applied by the subsidiaries as reporting entities. Changes in the scope of consolidation are communicated to the subsidiaries in a timely manner. Moreover, the guideline also defines charts of accounts that are binding throughout the Group. On the IT side, the guideline is supplemented by a uniform, Group-wide delivery and consolidation system that is based largely on off-the-shelf software and is protected by security measures against unauthorized access. All subsidiaries subject to reporting requirements transmit their Group reporting data using this application. Validation rules integrated into the system ensure that the data reported by the subsidiaries is consistent at the time of delivery. The ultimate responsibility for the correctness of the reported data in terms of content lies with the accounting departments of the subsidiaries. The Corporate Accounting Department conducts more detailed testing of the correctness of the data content and regularly communicates with the subsidiaries in this matter. To this end, the department evaluates standardized reports in which the companies explain material facts relevant to financial reporting.

After the process-based controls have been applied, Group consolidation including currency translation is carried out in the same system, without additional interfaces, utilizing both automated and manual procedures. The correctness of the automated consolidation steps and the master data necessary for this purpose is reviewed regularly. Consolidation information that must be entered manually is posted separately, documented to the extent required and verified downstream. This is supplemented by validation rules that are integrated into the system.

Regular coordination with other financial group functions, particularly the Treasury, Tax and Controlling group functions, assists the financial reporting process, e.g. inventory valuations and the mapping of derivatives transactions. A continual exchange of information with the operating business units and other group functions makes it possible to identify and deal with issues arising outside of accounting processes. These include litigation risks, projections for impairment testing and special contractual agreements with suppliers or customers. In addition, third-party service providers are consulted on special issues, particularly relating to the valuation of pensions and other post-employment benefits.

The full Board of Management prepares the consolidated financial statements which are then forwarded to the Supervisory Board's Audit Committee without delay. Upon recommendation by the Audit Committee, the consolidated financial statements are approved by the Supervisory Board at its financial statements meeting. The Supervisory Board, and especially its Audit Committee, deals with major questions relating to LANXESS's accounting and risk management, the audit mandate and the areas of focus for the auditor's audit of the annual financial statements.

Monitoring of risk management and the internal control system Monitoring of risk management and of LANXESS's internal control system (ICS) by means of process-independent testing is part of the risk management system. Within the Group, the Internal Auditing Group Function is tasked with overseeing both the functionality of the internal control and monitoring system and compliance with organizational safeguards. Planning of audits (selection of audit subjects) and audit methods applied by this group function are correspondingly aligned with risks. In addition, the early warning system is evaluated by the auditor as part of the audit of the annual financial statements. The Supervisory Board also exercises control functions, including regular monitoring of the efficiency of the risk management system by the full Supervisory Board and by its Audit Committee. The Audit Committee reviews reports about the nature and results of the Compliance Committee's work and the work performed by the Internal Auditing Group Function.

Risks of future development

Impact of the global economic crisis The chemical industry, which was heavily impacted by the global financial and economic

crisis in 2009, showed initial signs of recovery in the final months of the year. Compared with 2009, this is cause for a somewhat more optimistic outlook in the challenging 2010 fiscal year. However, as long as no solid evidence exists for a sustained economic upturn, setbacks cannot be ruled out. For this reason, forecasting risk remains at an above-average level. In other words, any projections, even those rooted in the most diligent of analyses when they are made, could prove to be founded on false assumptions.
As long as the economy has not recovered fully, the problem of low demand will result in reduced revenues and an associated decline in margins. The chemical industry requires a lot of fixed assets. Therefore, LANXESS faces the risk of plant underutilization and lower fixed cost degression when orders decrease. We counter this development with active facility management, whenever possible temporarily shutting down plants that are not operating at capacity and thereby reducing the associated fixed costs.

As a result of the crisis, an increasing number of insolvencies by customers and suppliers could occur. This can still be the case even once we have passed the peak of the economic crisis and could result in additional risks to sales and earnings. Active contract management is practiced continually to minimize this risk. Measures include rigorous trade receivables management, adjustments to credit limits and increased use of receivables insurance, as well as the ongoing monitoring of our key suppliers' business situation. Risk provisions are additionally set up for current and pending customer insolvencies.

A sustained weakness in global demand, coupled with the availability of too much capacity industry-wide, can also increase the price pressure on our products. We are committed to applying our "price before volume" strategy and other measures to avoid an erosion of the company's margins as far as possible.

Another macroeconomic development that strongly affected LANXESS in the first six months of 2009 was the at times steep drop in the price of various petrochemical raw materials as well as other important basic chemicals. In the second half of the year, the most important raw materials again saw prices rise, sometimes significantly. This trend toward rising commodity prices is assumed again for 2010. However, if this trend were to reverse, LANXESS might have to recognize impairment losses on the value of its processed and unprocessed inventories. These would be in addition to the write-downs already reported in the consolidated financial statements. In order to limit this effect, LANXESS is practicing careful inventory management by reducing inventories that it does not need.

Market risks LANXESS is inherently exposed to the general economic and political opportunities and risks of the countries and regions in which the LANXESS Group operates. As a chemicals enterprise, LANXESS is subject to economic risks and the risks typical of this industry sector. The volatility and cyclicality of the global chemical and polymer markets and their dependence on developments in customer industries harbor opportunities and risks with respect to LANXESS's business volume. The risks the company currently faces in this connection were discussed above in the section entitled "Impact of the global economic crisis."

In addition to being subject to economic and cyclical market risks, LANXESS's risk profile is influenced by structural changes in markets, such as the entry of new suppliers, the migration of customers to countries with lower costs, and product substitution or market consolidation trends in some sectors. LANXESS counters such trends with comprehensive measures designed first and foremost to achieve a sharper focus and arrive at a product portfolio with which it can operate successfully for the long term. At the same time, LANXESS systematically manages costs. On the procurement side, the principal risk lies in the volatility of raw material and energy prices. If the price of the materials we use increases, our production costs increase. If the price of the materials we use decreases, impairment losses may need to be recognized on inventories. LANXESS mitigates this type of procurement risk by following a sensible inventory and procurement policy. Most of the company's raw material needs are met with long-term supply contracts that have price escalation clauses, and many agreements with customers also contain price escalation clauses. LANXESS also hedges this risk in some cases via derivatives transactions if liquid futures markets are available for hedging raw material and energy price risks. Detailed information is contained in the section headed "Raw material price risk" under Note [31], "Financial instruments," to the Consolidated Financial Statements. To guard against possible supply bottlenecks due to factors such as the failure of a supplier or of an upstream operation at a networked site, LANXESS pursues an appropriate inventory strategy and lines up alternative sources of supply.

Corporate strategy risks LANXESS is consistently pursuing the strategic optimization of the enterprise. Its efforts include ongoing efficiency enhancement, strengthening of core businesses, active portfolio management, and proactive participation in industry consolidation through partnerships, divestments and acquisitions.

The success of the decisions associated with these efforts is naturally subject to forecasting risk in respect of predicting future (market) developments and making assumptions about the feasibility of planned measures. For example, the entry into or exit from a business segment could be based on profitability or growth expectations that prove to be unrealistic over time. LANXESS mitigates this risk by carefully and systematically processing decision-making information. During this process, the business units

affected and the Board of Management receive support from departments with the requisite expertise and, if necessary, from external consultants. When gathering information about potential M&A candidates, it is possible that certain facts required to assess a candidate's future performance or to determine the purchase price are not available or are not correctly interpreted. LANXESS reduces this risk by conducting well-structured due diligence analyses and, where possible, by concluding appropriate agreements with the sellers. Insufficient integration of acquired companies or businesses can result in expected developments not materializing. For this reason, LANXESS has structured processes with which full integration of business units acquired is assured.

The preparatory work for investments that exceed a specified significance threshold is the responsibility of the relevant business units. After review by an Investment Committee set up for this purpose, this information is presented to the Board of Management for a decision. This procedure ensures that investments are in line with our corporate strategy and satisfy our profitability and security requirements. Overall, we believe that our investments and portfolio adjustments actively contribute to the further development of LANXESS because of the care exercised when weighing the associated opportunities and risks.

Financial risks Financial risks are centrally managed by the Treasury Group Function. The chief financial risks that are analyzed, measured and steered are liquidity risks, interest rate risks, exchange rate risks, energy and raw material price risks, default risks with banks, customer risks and investment risks associated with pension assets. Detailed information about our financial risks and how we manage them is contained in Note [31], “Financial instruments,” to the Consolidated Financial Statements.

Legal risks Companies in the LANXESS Group are parties to various litigations. The outcome of individual proceedings cannot be predicted with assurance due to the uncertainties always associated with legal disputes. To the extent necessary in light of the known circumstances in each case, LANXESS has set up risk provisions for the event of an unfavorable outcome of such proceedings. Taking into account existing provisions and insurance, as well as agreements reached with third parties in respect of liability risks arising from legal disputes, the company currently estimates that none of these proceedings will materially affect the future earnings of the LANXESS Group.

In our reporting in previous years, we referred to heightened risks relating to certain antitrust proceedings brought by regulatory authorities or civil courts in the United States, Canada and Europe concerning certain products of the former Rubber Business Group, which was transferred to the LANXESS Group in the course of the spin-off from Bayer AG. LANXESS AG and Bayer AG agreed on specific rules governing their respective share of the liabilities in connection with these proceedings. The rules provide that LANXESS will bear 30% and Bayer AG 70% of such liabilities. LANXESS's total liability was limited to an amount that has now been exhausted by the payments which have since been made. In addition to this maximum amount, it is liable for the reimbursement of income tax payable as a result of limited tax deductibility and the proportionate costs of external legal counsel, which are also split between LANXESS and Bayer at a ratio of 30 : 70.

Additional information on legal risks can be found in Note [13], “Other current and non-current provisions,” to the Consolidated Financial Statements.

Production and environmental risks Although LANXESS applies high technical and safety standards to the construction, operation and maintenance of production facilities, interruptions in operations, including those due to external factors, such as natural disasters or terrorism, cannot be ruled out. These can lead to explosions, the release of materials hazardous to health, or accidents in which people, property or the environment are harmed. In addition to systematically monitoring compliance with quality standards aimed at avoiding such stoppages or accidents, LANXESS is also insured against the resulting damage to the extent usual in the industry. Risks that can arise due to a lack of plant availability and disruptions of plant and process safety are countered with a comprehensive set of measures. These include regular compliance checks, systematic training of employees to improve standards and safety, and the preparation of risk assessments.

Possible tightening of safety, quality and environmental regulations or standards can lead to additional costs and liability risks that are beyond the control of LANXESS. Particularly noteworthy in this regard is the implementation of the E.U. Regulation concerning the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH). In addition to direct costs that could arise due to additional measures necessary to comply with these standards, market structures could change to LANXESS's disadvantage as a result of a shift by suppliers and customers to regions outside Europe.

LANXESS is and was responsible for numerous sites at which chemicals have been produced for periods that in some cases exceed 140 years. This responsibility also covers waste disposal facilities. The possibility cannot be ruled out that pollution occurred during this time that has not been discovered to date. LANXESS is committed to the Responsible Care initiative and actively pursues environmental management. This includes constant monitoring and testing of the soil, groundwater and air. Sufficient provisions have been set up within the scope permitted by law for necessary containment or remediation measures in

areas with identified contamination.

LANXESS's product portfolio includes substances that are classified as hazardous to health. In order to prevent possible harm to health, LANXESS systematically tests the properties of its products and draws its customers' attention to the risks associated with their use. We also carry product liability insurance that is customary in our industry.

Other risks Tax matters are subject to a degree of uncertainty in terms of their assessment by the tax authorities in Germany and other countries. Even if LANXESS believes that all circumstances have been reported correctly and in compliance with the law, the possibility cannot be ruled out that the tax authorities may come to a different conclusion in individual cases.

The provision of correct information at the correct time to the correct addressee is one of LANXESS's success factors. LANXESS is dependent on its integrated IT systems to manage this information. In order to ensure constant availability of its data, LANXESS operates data back-up systems, mirrored databases, anti-virus and access restriction systems, along with other state-of-the-art security and monitoring tools.

LANXESS's activities depend on its employees. With regard to human resources risks, industrial actions in some countries resulting from disputes about the implementation of restructuring measures or in connection with negotiations concerning future collective pay agreements cannot be ruled out. We counter this risk by fostering open communication with our employees and their representatives. Another human resources risk we face is the anticipated increase in our personnel expenses because of future wage increases. If the rate of increase is particularly high, we may not be able to raise productivity enough to compensate for the higher costs.

Overall risk LANXESS's risk exposure decreased slightly in the reporting year due to the stabilization of the economic situation compared with the previous year. Nonetheless, all planning is subject to a certain degree of forecasting risk, necessitating flexible adjustments to rapidly changing business conditions. This is particularly true in view of the fact that planning and forecasts in general have become somewhat less reliable due to the drastic changes in our global procurement and customer markets observed recently.

The world's major rating agencies, Standard & Poor's, Moody's Investors Service and Fitch Ratings, have all assessed LANXESS's default risk at "BBB" or "Baa2" with stable outlook, which are solid investment-grade ratings. These ratings were again confirmed during the economically very challenging year under review.

Because of our improved financial structures and the management flexibility LANXESS has already demonstrated in prior years, we are confident that we can successfully master the risks that are materializing.

Based on an overall evaluation of risk management information, the Board of Management at the present time cannot identify any sufficiently likely risks or risk combinations that would jeopardize the continued existence of LANXESS.

EVENTS AFTER THE BALANCE SHEET DATE

No events of particular significance took place after December 31, 2009 that could be expected to have a material effect on the cash flows, financial condition and results of operations of the LANXESS Group.

OUTLOOK

Expected changes in business conditions In 2010, the world economy can be expected to continue along the path to recovery started in the second half of 2009. We currently anticipate growth in global gross domestic product (GDP) to amount to approximately 2.5%. However, the strength of the recovery will vary from region to region. Whereas growth rates in most emerging markets will remain strong, the upswing in the industrialized countries will be more moderate. There is still a possibility that the economy will suffer setbacks. For instance, uncertainty still prevails with regard to the sharply negative trend in the fiscal health of some countries and the question of how large deficits should be eliminated. There is also a lack of clarity about the scope and timing of a necessary reduction of liquidity in the financial markets.

In the United States, we anticipate growth of 2.1% in 2010. The strained U.S. labor market situation and the decline in the value of private assets will curtail consumer spending, thereby impeding stronger growth. In Europe, the prospects for an improvement in consumer confidence, and therefore sustained growth, are also limited. GDP in the region will likely only increase by 0.9%,

although Germany's growth is expected to be above the average at 1.6%. The outlook for the emerging markets is much rosier. China's GDP is likely to grow by 8.9%, while India's growth rate is projected to accelerate to 7.2%.

Economic forecasts for 2011 continue to assume variations in the momentum of growth. The recovery will still center on the Asia-Pacific region, whereas growth in the industrialized countries will remain below average.

The trend in raw material prices will depend greatly on the strength of the global economic recovery. If projections are accurate, rising raw material prices should be assumed for 2010. For example, the International Monetary Fund's prognosis is for crude oil prices to increase by more than 20% during the course of the year.

Future performance of the chemical industry For the chemical industry, we estimate growth of 4.5% in 2010 with production not yet regaining 2008 levels. It can be assumed that manufacturing will continue to perform well in coming years in parallel with the global recovery in customer industries. The emerging markets, particularly China, India and Middle Eastern countries, will be the primary drivers of this growth. In contrast, the performance of the industrialized countries will likely be below average in view of continued weaker demand and the increasing pressure of global competition. This trend will continue in the medium term.

Future evolution of selling markets In 2010, we look forward to further recovery in those markets that are important to LANXESS, with the emerging markets again leading the way in this development.

Demand in the tire industry is expected to rise by 5%. The introduction of mandatory tire labeling in Europe as of 2012 will boost demand for rubber grades that can be used to achieve an advantageous classification. At this time, it is still difficult to gauge the specific effects of the import duties on Chinese tires levied by the United States since late September 2009. We assume that the consequences will be minimal because leading tire manufacturers could divert their imports to other low-wage countries. Tire production in the NAFTA region will likely grow by 6%, while an improvement of 4% is expected in Europe.

The automotive industry will recover worldwide in 2010 and we expect growth of 2%. In the NAFTA region, many individuals and companies will probably delay possible purchases of new vehicles due to the financial crisis, rising unemployment and the drop in the price of real estate. Nonetheless, production should increase by 4% in the current year. In Europe, manufacturing is expected to fall back 3% due to the expiration of government incentive programs, which had the effect that many purchases were brought forward into 2009. With tax incentive programs running out as expected, demand in China should also return to normal, with production growing by just 5%.

It is unlikely that the construction sector will recover in most markets in 2010. Performance is expected to be positive only in Asian markets (+6%) and in emerging economies in Latin America (+4%) and eastern Europe (+2%). NAFTA and western Europe will continue to face downturns.

We believe that the market for agrochemicals will stabilize in 2010 with growth estimated at 4%. Asia is expected to deliver the highest growth at 6%, followed by Europe at 2%. The NAFTA region's performance is likely to be below average with growth of 1%. In our opinion, this variation in growth rates will persist even in the medium term due to the introduction of new crop plants.

Future focus of the LANXESS Group In 2009, LANXESS's strategy proved to be successful in a challenging economic environment. The same is true for the Group's legal and organizational structure and we therefore see no reason to make fundamental changes. In the future, we will continue to position ourselves as a flexible, market-driven premium supplier at the core of the chemical industry generating measurable added value for customers with our innovative capability. We aim to realize growth opportunities primarily through the strategic initiatives described below.

Further expansion in the BRIC countries In recent years, LANXESS has substantially strengthened its business activities in Asia, central and eastern Europe and Latin America. It will continue to push expansion of its market positions there. Our increasing presence in these key economic regions gives us the opportunity to benefit from their positive economic momentum.

In Asia, the construction of a world-scale production facility in Singapore will give us an important basis for further expanding our leadership position in the steadily growing butyl rubber market. Work on the state-of-the-art butyl rubber plant with an annual capacity of up to 100,000 tons will begin in May 2010. Production is scheduled to start in the first quarter of 2013. In the current fiscal year, our Rubber Chemicals and Ion Exchange Resins business units will start up their new plants in Jhagadia, India. Once construction is completed, Jhagadia will be one of the LANXESS Group's most advanced production facilities in the whole of Asia. We will also boost operations in China, where the Inorganic Pigments business unit is currently planning to modernize and expand its pigment production facility in Jinshan near Shanghai.

Having established our own sales and marketing company in Russia in spring 2009, the Rhein Chemie business unit is currently planning to build LANXESS's first production facility at Nizhny Novgorod near Moscow. The production of polymer-bound additives and release agents for the rubber processing and tire industries is scheduled to start at this facility at the end of 2010.

In Latin America, we consider our company well positioned to profit from the forecast economic recovery in this region following the successful integration of the leading local synthetic rubber manufacturer Petroflex S.A., which has been operating as LANXESS Elastômeros do Brasil S.A. since 2009.

Product portfolio aligned to market trends LANXESS's presence in all key customer industries is ensured by its extensive product portfolio. The broad diversification of this portfolio makes LANXESS independent of any one product or process. In that regard, no product or process innovations are expected in 2010 that would individually have a significant influence on the LANXESS Group's performance. In spite of this, there are product segments in our portfolio that may benefit particularly positively from strategic market trends at the moment and are therefore the focus of targeted expansion measures.

- For LANXESS as a major supplier to leading tire manufacturers, the decision by the E.U. to label vehicle tires to show their fuel efficiency, wet grip and noise emissions starting in 2012 provides an opportunity for sustainable growth. Environmentally friendly tires as defined in the classification are practically inconceivable without the use of high-performance rubber products. The high-tech materials produced by LANXESS make it possible to extend the "magic triangle" of tire technology, combining low rolling resistance with good wet grip and long service life. In the coming years, we aim to unlock the large potential inherent in the high-performance tire segment with further innovations.

- Ongoing industrialization and continued population growth will result in a further significant increase in demand for clean drinking water in the coming years. This will drive the growth of the global market for water treatment products, currently estimated at approximately €320 billion. LANXESS already holds a strong position in this market today thanks to its ion exchange resins. By using membrane filtration technology, we are seizing the opportunity to further reinforce our positioning. A new chemical production site at Bitterfeld will support this move. Investment there will total around €30 million. Current planning envisages the first products from the plant reaching the market in 2011. Also, the start-up of our ion exchange resins facility in Jhagadia, India, in 2010 will give us a local presence in one of the key markets for water treatment products.

Significance of research and development We intend for innovations to continue playing a large role in generating organic growth and cementing our competitive positions as a premium supplier. Our research and development budget for fiscal 2010 exceeds that of 2009 by around 10%. Around 65% of the research and development projects from 2009 are scheduled to be brought to market or incorporated in technology by the end of 2010.

Challenge09-12 lowers break-even In 2009, we successfully implemented an extensive package of operational measures we named Challenge09-12 aimed at lowering costs and enhancing efficiency throughout the LANXESS Group. Through our Group-wide flexible asset management policy, we have been able to avoid overproduction, cut the use of energies, infrastructure services and logistics, and reduce the unnecessary build-up of inventories. Our employees have also helped to relieve cost pressure by taking a cut in working hours and a corresponding reduction in pay. The Board of Management and managerial employees are also contributing by waiving part of their variable compensation. Overall, we expect the measures outlined here to cut costs by €360 million through 2012 and provide LANXESS with the foundation for doing business profitably, even during times of economic weakness.

Expected results of operations The downturn in the global economy initially continued into 2009 and in the first six months of 2009 led to one of the deepest global recessions in decades, impacting all segments of the real economy. After the economic crisis bottomed out, initial signs of recovery became evident at the beginning of the second half of the year. This upturn has continued to develop slowly and gained momentum at the start of 2010. The gradual strengthening of the economic environment has varied widely from region to region. Asia has seen the most marked improvement, with increasingly positive impetus for growth again coming from China and India. In contrast, North America continues to experience uncertainty about future development. At the beginning of 2010, there were still no clear signals for a sustained improvement in the region's real economy. A similar lack of certainty currently also exists with regard to economic development in Europe in the course of 2010.

Against this background, LANXESS anticipates widely varying regional trends in its customer industries in fiscal 2010. Asia has seen further improvement in demand since the third quarter of 2009, a development likely to continue in fiscal 2010. Demand is expected to accelerate in the industries we serve, especially in China and India. In Latin America, particularly Brazil, we also expect the recovery to gather pace. In LANXESS's opinion, demand will improve only slowly in the relevant customer industries in North America. At the present time, however, it is not possible to predict the sustainability and strength of this upturn during 2010.

Similar uncertainty exists with regard to future economic development in Europe. Nonetheless, it can be assumed that the overall demand situation there will continue to improve, although with marked regional differences. The economies of Greece, Spain and Italy in particular are currently facing extreme pressures, and this is contributing to macroeconomic uncertainty in Europe.

LANXESS believes raw material costs will rise again in 2010. After a sharp drop in commodity prices, the second quarter of 2009 saw raw material costs climb again, a trend which has continued into early 2010. It is LANXESS's opinion that this development will persist throughout 2010.

We expect the seasonality of earnings to normalize again in fiscal 2010. Earnings will likely be higher in the first two quarters than in the second half of the year. Against the backdrop of the global economic crisis, this previously regular seasonality was overshadowed by other demand effects in 2009. In the first quarters of 2009, our customers reacted to the crisis and the resulting lack of demand by reducing their inventories as much as possible and maintaining them at a low level for the rest of the year. LANXESS believes that customers will build up moderate inventories in the 2010 fiscal year.

Our performance forecasts for the three segments are as follows:

In the **Performance Polymers** segment, the tire industry will continue to benefit from the long-term trend toward mobility in Asia, particularly in China and India, and in Latin America. Following the net downturn in 2009, demand for tires is expected to increase again year on year in 2010, a development already clearly evident in the fourth quarter of 2009.

This improved demand in one of LANXESS's key customer industries should also boost demand for rubber products from our Butyl Rubber and Performance Butadiene Rubbers business units in 2010. Greater demand in the original equipment and replacement tire segments was already apparent in the first months of 2010 and is expected to continue throughout the year. High-quality rubber products, strong market positioning and the regional presence of our relevant business units will enable LANXESS to benefit from this rising demand.

Starting in 2010, LANXESS will invest in expanding the capacity of the Butyl Rubber business unit with the aim of further strengthening its market position. To this end, LANXESS is building a new butyl rubber plant in Singapore. With an annual capacity of up to 100,000 tons, the facility is scheduled to start operation in the first quarter of 2013. Around €100 million of the total capital expenditure of up to €400 million will be invested in 2010. This new capacity will enable LANXESS to meet the medium- and long-term growth in demand for butyl rubber for tires, particularly from the BRIC countries. The world's major tire manufacturers are also investing in new capacities, chiefly for the production of high-quality tires in which LANXESS butyl rubber is used.

With its new plant in Singapore, LANXESS is positioning itself directly in the most important growth region for the long-term, thereby securing direct access to key markets in Asia.

Apart from the very important tire industry, we also anticipate robust growth in demand for butyl rubber from the pharmaceuticals sector in the coming years: its impermeability makes butyl rubber ideal for use in pharmaceutical packaging components.

In the Performance Butadiene Rubbers business unit, LANXESS will expand production capacities for neodymium polybutadiene rubber (Nd-PBR) in the current year at the sites in Dormagen, Germany; Orange, Texas, United States; and Cabo, Brazil, investing a total of approximately €20 million in this project starting in 2010. The additional annual capacities of 50,000 tons will be available between the first quarter of 2011 and the first quarter of 2012 to meet the growing demand for high-performance Nd-PBR. Future demand for this type of rubber will also be driven by the E.U. decision to require the classification and labeling of all new tires sold in the E.U. according to their fuel efficiency, wet grip and noise emissions from the end of 2012 onward. Our high-grade Nd-PBR products will help tire manufacturers to simultaneously optimize performance in these three categories.

The demand situation in the Technical Rubber Products business unit had already improved substantially again in the fourth quarter of 2009. In 2010, we expect a recovery of varying regional strength in the business unit's significant customer markets in the automotive industry and we anticipate that Technical Rubber Products will also improve earnings in the current fiscal year.

In 2010, LANXESS additionally projects increasing demand from Asia for products from the Semi-Crystalline Products business unit of the Performance Polymers segment. In recent years, this business unit has focused on building its presence in this growth region with a production facility for high-performance plastics in Wuxi, China, and can therefore profit from future growth in Asia. LANXESS is also investing around €35 million at the Antwerp site to expand production capacity for caprolactam, an important precursor for the manufacture of the Semi-Crystalline Products business unit's Durethan® family of technical plastics. Among the applications of Durethan® are heavy-duty automotive parts, including the car body, oil pans and radiator grilles. This investment

will enable LANXESS to strengthen the company's positioning in the global plastics market and at the same time secure its backward integration. Moreover, the caprolactam output will be used mainly for LANXESS's own plastics production.

In the **Advanced Intermediates** segment, we expect 2010 to bring a return to normal seasonality, with the first six months stronger than the rest of the year. However, demand from the agrochemicals segment is likely to remain at a lower level in the first few months. Due to the economic crisis in 2009, customers in this segment in particular still have large inventories at the present time. Nevertheless, we believe that the market for agrochemical precursors is structurally intact for the long term. In the pharmaceuticals sector, we expect mix effects in project business to slightly reduce demand for our Saltigo business unit's products in 2010. On the whole, the Advanced Intermediates segment remains well-positioned in key customer markets to benefit from a resurgence in demand in 2010.

LANXESS believes that fiscal 2010 will also bring an improvement in demand for the business units in the **Performance Chemicals** segment. We anticipate the growing recovery of this segment's customer industries, including the construction, apparel, furniture and automotive industries, although the pace of this recovery will vary greatly. The Inorganic Pigments business unit, which manufactures pigments used to color products such as coatings and construction materials, is also likely to see a further upswing as the construction industry stabilizes. Due to its backward integration in chrome ore recovery, we believe that the Leather business unit will benefit from the already significant increase in demand for steel products in Asia and the improvement in the furniture industry.

This LANXESS segment also includes business units that are extremely well positioned in high-growth niche markets with innovative solutions. We expect an increase in global demand for the ion exchange resins produced by the Ion Exchange Resins business unit, which are used for the purification and treatment of water. Factors such as sustained population growth and escalating environmental pollution in particular are increasing the importance of water treatment. For this reason, LANXESS is investing in the construction of a production facility for ion exchange resins in Jhagadia, India, thus strengthening its position with innovative products in one of the regions with the fastest growing demand. In addition, the Rubber Chemicals business unit is relocating the manufacture of rubber chemicals within India from Thane to Jhagadia. Production at the new site, in which a total of €50 million was invested, will start in 2010.

A number of other factors are likely to affect the anticipated earnings of the **LANXESS Group.**

The rapid and successful implementation of Challenge09-12, LANXESS's package of measures to counter the effects of the economic crisis, will impact the company's earnings situation. This program mainly comprises flexible asset management and adjustments to the pay and variable compensation of all employees, including the members of the Board of Management, and is expected to generate cost reductions totaling €360 million worldwide from 2009 through 2012. In 2010, savings resulting from these measures are projected to amount to €140 million.

Possible exchange rate fluctuations may also affect earnings. LANXESS has already entered into hedging transactions to ward off the effects of such developments in the current year as well as 2011. Compared with 2009, we expect the prices of raw materials and energies to rise again this year.

Now that the economic crisis has bottomed out, we are generally more optimistic about the future given these expected developments. Business in the fourth quarter of 2009 was better than predicted, and our business appears to be progressing well in the first quarter of 2010. Overall, we anticipate a significant improvement in our earnings (EBITDA pre exceptionals) in 2010 compared with 2009.

Expected financial condition LANXESS will continue its strategy of targeted investment and growth in the current fiscal year. The cash outflows for capital expenditures planned for 2010 amount to around €400 million and exceed those made in previous years following the postponement of various investment projects in 2009. Around half of the above-mentioned investment volume will benefit the **Performance Polymers** segment. This includes the largest planned investment, the butyl rubber production facility in Singapore. LANXESS will strengthen the **Advanced Intermediates** segment with cash outflows for capital expenditures in the range of €60 million. In the **Performance Chemicals** segment, the investment projects already begun at the Jhagadia site in India for the Ion Exchange Resins and Rubber Chemicals business units will be concluded in 2010.

The financing for these and other capital expenditures is expected to come from future cash flow, current liquidity and existing lines of credit. Financing needs that arise in connection with our operating business, the anticipated dividend payment and other efficiency enhancement measures will also be met out of these resources. We believe that our consistent implementation of restructuring projects in recent years, our various portfolio measures, the investment in efficient, new production processes and the long-term nature of our financing place the LANXESS Group in a fundamentally sound position. There is currently no need to

refinance due to the solid liquidity situation resulting from the extensive measures implemented in the year under review to improve our financial position and ensure entrepreneurial flexibility.

Summary of Group's projected performance In order to support our business performance in 2009, LANXESS successfully implemented a comprehensive package of measures at the operating level that will be continued in the current fiscal year and which will yield further cost structure improvements. In addition, LANXESS also significantly enhanced its operating performance, even in the extremely challenging economic climate, by way of the forward-looking and rapid implementation of these measures. We have successfully positioned the Group during the crisis so that it can benefit from a recovery in the global marketplace.

LANXESS is well-positioned in all segments worldwide and in the past year has also improved its presence in key growth regions, particularly in the rapidly expanding markets in Brazil, India and China.

We expect the ongoing recovery of our customer industries in fiscal 2010. However, there is still uncertainty concerning the extent and duration of this recovery, which will vary widely from region to region. It is expected to be strongest in Asia, particularly in China and India, in the coming fiscal year. In Latin America, especially Brazil, we also expect the economy to pick up at a faster pace. However, no prediction can yet be made concerning the sustainability and strength of the recovery in North America in the course of 2010. In Europe, we believe that demand will improve overall, although growth will trend very differently from country to country.

Against the backdrop of the successful alignment and positioning of the LANXESS Group and the expected improvement in demand, we are again generally more optimistic about the future and anticipate significantly better earnings in fiscal 2010 than in 2009. Provided that the global economy continues its recovery, the positive earnings trend that we expect for 2010 should also carry on into fiscal 2011.

STATEMENT OF FINANCIAL POSITION
LANXESS GROUP

€ million	Note	Jan. 1, 2008	Dec. 31, 2008	Dec. 31, 2009
ASSETS				
Intangible assets	(1)	33	145	196
Property, plant and equipment	(2)	1,459	1,646	1,809
Investments accounted for using the equity method	(3)	25	42	26
Investments in other affiliated companies	(4)	1	2	1
Non-current derivative assets		0	43	16
Other non-current financial assets	(5)	85	72	79
Deferred taxes	(23)	114	154	163
Other non-current assets	(6)	24	65	92
Non-current assets		**1,741**	**2,169**	**2,382**
Inventories	(7)	895	1,048	849
Trade receivables	(8)	809	725	733
Cash and cash equivalents		189	249	313
Near-cash assets	(9)	0	0	402
Current derivative assets		72	34	29
Other current financial assets	(5)	128	155	146
Current income tax receivables		5	56	31
Other current assets	(10)	145	156	183
Current assets		**2,243**	**2,423**	**2,686**
Total assets		**3,984**	**4,592**	**5,068**

EQUITY AND LIABILITIES

Capital stock and capital reserves		889	889	889
Other reserves		813	762	818
Net income		0	183	40
Other equity components		(304)	(511)	(315)
Equity attributable to non-controlling interests		17	16	13
Equity	(11)	**1,415**	**1,339**	**1,445**
Provisions for pensions and other post-employment benefits	(12)	535	498	569
Other non-current provisions	(13)	242	261	307
Non-current derivative liabilities		0	30	4
Other non-current financial liabilities	(14)	601	986	1,462
Non-current income tax liabilities		36	91	47
Other non-current liabilities	(15)	47	46	77
Deferred taxes	(23)	40	41	38
Non-current liabilities		**1,501**	**1,953**	**2,504**
Other current provisions	(13)	371	395	352
Trade payables	(16)	487	484	486
Current derivative liabilities		6	79	26
Other current financial liabilities	(17)	59	168	94
Current income tax liabilities		16	12	52
Other current liabilities	(15)	129	162	109
Current liabilities		**1,068**	**1,300**	**1,119**
Total equity and liabilities		**3,984**	**4,592**	**5,068**

2008 figures restated

INCOME STATEMENT
LANXESS GROUP

€ million	Note	2008	2009
Sales	(19)	**6,576**	**5,057**
Cost of sales		(5,115)	(3,956)
Gross profit		**1,461**	**1,101**
Selling expenses		(658)	(530)
Research and development expenses		(97)	(101)
General administration expenses		(270)	(235)
Other operating income	(20)	404	237
Other operating expenses	(21)	(517)	(323)
Operating result (EBIT)		**323**	**149**
Income from investments accounted for using the equity method		21	8
Interest income		19	17
Interest expense		(55)	(90)
Other financial income and expense		(62)	(52)
Financial result	(22)	**(77)**	**(117)**
Income before income taxes		**246**	**32**
Income taxes	(23)	(63)	7
Income after income taxes		**183**	**39**
of which attributable to non-controlling interests		0	(1)
of which attributable to LANXESS AG stockholders (net income)		183	40
Earnings per share in € (undiluted/diluted)	(24)	**2.20**	**0.48**

2008 figures restated

STATEMENT OF COMPREHENSIVE INCOME
LANXESS GROUP

€ million	2008	2009
Income after income taxes	**183**	**39**
Actuarial gains/losses, effects of the asset ceiling and minimum funding requirements relating to defined-benefit plans	45	(114)
Exchange differences on translation of operations outside the euro zone	(117)	125
Financial instruments	(123)	97
Income taxes on other comprehensive income	20	1
Other comprehensive income, net of income tax	**(175)**	**109**
Total comprehensive income	**8**	**148**
of which attributable to non-controlling interests	0	(3)
of which attributable to LANXESS AG stockholders	8	151

STATEMENT OF CHANGES IN EQUITY
LANXESS GROUP

€ million	Capital stock	Capital reserves	Other reserves	Net income	Other equity components		Equity attributable to LANXESS AG stockholders	Equity attribut-able to non-controllin g interests	Equity
					Currency - translation - adjustment	Financial instruments			
Jan. 1, 2008 (after allocation to retained earnings)	**83**	**806**	**923**	**0**	**(350)**	**46**	**1,508**	**17**	**1,525**
Change in accounting			(110)				(110)		(110)
Jan. 1, 2008 after change in accounting	**83**	**806**	**813**	**0**	**(350)**	**46**	**1,398**	**17**	**1,415**
Dividend payments			(83)				(83)	(1)	(84)
Total comprehensive income			32	183	(117)	(90)	8	0	8
Dec. 31, 2008	**83**	**806**	**762**	**183**	**(467)**	**(44)**	**1,323**	**16**	**1,339**
Allocation to retained earnings			183	(183)			0		0
Dividend payments			(42)				(42)		(42)
Total comprehensive income			(85)	40	127	69	151	(3)	148
Dec. 31, 2009	**83**	**806**	**818**	**40**	**(340)**	**25**	**1,432**	**13**	**1,445**

2008 figures restated

STATEMENT OF CASH FLOWS
LANXESS GROUP

€ million	Note	2008	2009
Income before income taxes		**246**	**32**
Depreciation and amortization		279	273
Gains on disposals of intangible assets and property, plant and equipment		(15)	(18)
Income from investments accounted for using the equity method		(21)	(8)
Financial losses		71	71
Income taxes paid		(120)	0
Changes in inventories		(113)	228
Changes in trade receivables		173	23
Changes in trade payables		(34)	(12)
Changes in other assets and liabilities		26	(24)
Net cash provided by operating activities	(32)	**492**	**565**
Cash outflows for purchases of intangible assets, property, plant and equipment		(342)	(275)
Cash outflows for financial assets		(35)	(448)
Cash outflows for the acquisition of subsidiaries, less acquired cash and cash equivalents		(245)	(86)
Cash inflows from sales of intangible assets, property, plant and equipment		33	24
Cash inflows from divestments of subsidiaries and other businesses, less divested cash and cash equivalents		27	7
Interest and dividends received		19	37
Cash outflows for external financing of pension obligations (CTA)		0	(30)
Net cash used in investing activities	(32)	**(543)**	**(771)**
Proceeds from borrowings		442	943
Repayments of borrowings		(196)	(590)
Interest paid and other financial disbursements		(47)	(53)
Dividend payments		(84)	(42)
Net cash provided by financing activities	(32)	**115**	**258**
Change in cash and cash equivalents from business activities		**64**	**52**
Cash and cash equivalents as of January 1		189	249
Other changes in cash and cash equivalents		(4)	12
Cash and cash equivalents as of December 31	(32)	**249**	**313**

2008 figures restated

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL INFORMATION

The consolidated financial statements of the LANXESS Group as of December 31, 2009 were prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union (E.U.), and the corresponding interpretations, together with the additional requirements of Section 315a Paragraph 1 of the German Commercial Code (HGB). The previous year's figures were determined according to the same principles.

The consolidated financial statements comprise the statement of financial position, the income statement and statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes, which include the segment information.

The consolidated financial statements of the LANXESS Group were prepared entirely in euros (€). Amounts are stated in millions of euros (€ million) except where otherwise indicated. Assets and liabilities are classified in the statement of financial position as current or noncurrent. In some cases, a detailed breakdown by maturity is given in the notes.

The consolidated financial statements are prepared on the basis of historical acquisition, generation, construction or production costs of the assets. Where the IFRS prescribes different valuation principles, these are used. They are explained in the section on recognition and valuation principles.

The income statement was prepared using the cost-of-sales method.

The fiscal year for these consolidated financial statements is the calendar year.

The annual financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group, to which the auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, have issued unqualified auditor's reports, are published in the electronic version of the German Federal Gazette (Bundesanzeiger).

The consolidated financial statements of the LANXESS Group for fiscal 2009 were drawn up by the Board of Management of LANXESS AG and authorized for submission to the Supervisory Board on March 2, 2010. It is the responsibility of the Supervisory Board to examine the consolidated financial statements and declare whether or not it approves them.

CONSOLIDATION METHODS

The consolidated financial statements of the LANXESS Group include LANXESS AG and all material subsidiaries under the direct or indirect control of LANXESS AG. Control exists if LANXESS AG holds more than half of the voting rights in a company or is otherwise able to govern the company's financial and operating policies in order to obtain benefits from its activities. A company is consolidated as of the date from which LANXESS AG is able to exercise control and deconsolidated when this is no longer the case.

The financial statements of the consolidated companies were prepared using uniform recognition and valuation principles.

If the fiscal year of a consolidated company does not end on December 31, interim financial statements are prepared for the purpose of consolidation.

Capital consolidation is performed according to IFRS 3. All business combinations are accounted for by using the purchase method. The cost of a business combination is stated as the aggregate of the fair values, at the date of acquisition, of the assets given, liabilities incurred or assumed, and any equity instruments issued in exchange for control of the acquiree plus all costs directly attributable to the business combination. The cost of acquisition is compared with the balance of the acquired assets, liabilities and contingent liabilities stated at fair value (purchase price allocation). The fair value of net assets not acquired as part of the business combination is stated under equity attributable to non-controlling interests.

Any difference between the cost of acquisition and the fair value of the net assets acquired is recognized as goodwill and tested annually for impairment – or more frequently where events or changes in circumstances indicate a possible impairment. Negative

goodwill is immediately recognized through profit or loss after the purchase price allocation has been re-examined for possible errors.

Intra-Group profits, losses, sales, income, expenses, receivables and payables are eliminated.

Investments in entities in which the LANXESS Group exerts significant influence, generally through an ownership interest of between 20% and 50%, are accounted for using the equity method. The cost of acquisition of such an entity (associate) is adjusted annually by the percentage of any change in its equity corresponding to LANXESS's percentage interest in the entity. Any goodwill arising from the first-time inclusion of companies at equity is accounted for in the same way as goodwill relating to subsidiaries.

The joint venture Anhui Tongfeng Shengda Chemical Company Limited, Tongling, China, is also accounted for using the equity method.

CURRENCY TRANSLATION

In the financial statements of the individual consolidated companies that form the basis for the consolidated financial statements of the LANXESS Group, all foreign currency receivables and payables are translated at closing rates, irrespective of whether they are hedged. Forward contracts serving as economic hedges against fluctuations in exchange rates are reflected at fair value.

The financial statements of foreign entities are prepared in their respective functional currencies in accordance with IAS 21. By far the majority of foreign companies are financially, economically and organizationally autonomous and their functional currencies are therefore the local currencies. The assets and liabilities of these companies are translated at closing rates, while income and expense items are translated at average rates for the year.

Goodwill arising on the acquisition of a foreign entity is recorded in the currency of the acquired entity and translated at the closing rate, irrespective of the date on which it arose.

Since equity (excluding income and expenses recognized directly in other comprehensive income) is translated at historical rates, the differences arising on translation at closing rates are shown separately in other comprehensive income as exchange differences on translation of operations outside the euro zone.

If a company is deconsolidated, the relevant exchange differences are reversed and recognized through profit or loss.

Where the operations of a foreign company are essentially integrated into those of the parent company, the functional currency is that of the parent company. In these cases, currency translation is carried out by the temporal method and recognized through profit or loss.

The exchange rates for major currencies against the euro changed as follows:

Exchange Rates

€ 1		Closing rate, Dec. 31		Average rate	
		2008	**2009**	**2008**	**2009**
Argentina	ARS	4.81	5.47	4.64	5.21
Brazil	BRL	3.25	2.51	2.67	2.77
China	CNY	9.50	9.84	10.23	9.52
United Kingdom	GBP	0.95	0.89	0.80	0.89
India	INR	67.39	66.84	63.60	67.29
Japan	JPY	126.14	133.16	152.37	130.35
Canada	CAD	1.70	1.51	1.56	1.59
South Africa	ZAR	13.07	10.67	12.07	11.68
United States	USD	1.39	1.44	1.47	1.39

RECOGNITION AND VALUATION PRINCIPLES

Intangible assets Acquired intangible assets with a definite useful life are recognized at cost and amortized over their respective useful lives. The amortization period for software, concessions, industrial property rights, similar rights and assets and licenses to such rights and assets varies from 3 years to 20 years. Write-downs are made for impairment losses. Write-backs are made if the reasons for previous years' write-downs no longer apply. Such write-backs (reversals of impairment losses), however, must not cause the carrying amounts of the assets to exceed either the amortized cost at which they would have been recognized if the write-downs had not been made or their current recoverable value. The lower of these two amounts is recognized. Amortization for 2009 has been allocated to the respective functional cost items. Intangible assets with indefinite useful lives are not amortized. They are tested for impairment annually, or more often if events or a change in circumstances indicate a possible impairment.

Goodwill, including that arising from capital consolidation, is capitalized and tested annually for impairment – or more frequently where events or changes in circumstances indicate a possible impairment. In compliance with IAS 36, impairments of goodwill are determined by comparing the goodwill to the discounted cash flows expected to be generated by the assets to which it can be ascribed. Any impairments of capitalized goodwill are included in other operating expenses. Neither write-backs of goodwill impairments nor the amortization of goodwill are permitted.

The costs incurred for in-house software development at the application development stage are capitalized and amortized over the expected useful life of the software from the date it is placed in service.

Emissions allowances are recognized at cost. Allowances allocated free of charge by the German Emissions Trading Authority (DEHSt) or comparable authorities in other European countries are capitalized at a value of zero.

Property, plant and equipment Property, plant and equipment is carried at the cost of acquisition or construction less depreciation for wear and tear. Write-downs are made for impairments that go beyond normal depreciation. In compliance with IAS 36, impairment losses are measured by comparing the carrying amounts with the discounted cash flows expected to be generated by the assets in the future. Where it is not possible to allocate future cash flows to specific assets, the impairment loss is assessed on the basis of the discounted cash flows for the cash-generating unit to which the asset belongs. Write-backs are made if the reasons for previous years' write-downs no longer apply, provided that this does not cause the carrying amounts of

the assets to exceed either the amortized cost at which they would have been recognized if the write-downs had not been made or their current recoverable value.

The cost of self-constructed property, plant and equipment comprises the direct cost of materials, direct manufacturing expenses, appropriate allocations of material and manufacturing overheads, and an appropriate share of the depreciation and impairments of assets used in construction. It also includes the shares of expenses for company pension plans and discretionary employee benefits that are attributable to construction.

Where an obligation exists to decommission or dismantle assets at the end of their useful life or to restore a site to its original condition, the present value of the liability is capitalized along with the cost of acquisition or construction and a provision in the same amount is recognized.

If the construction phase of property, plant or equipment extends over a long period, the directly attributable borrowing costs incurred up to the date of completion are capitalized as part of the cost of acquisition or construction.

Expenses for current maintenance and repairs are recognized directly through profit or loss. They are capitalized retroactively as acquisition or construction costs if they will result in future economic benefits and can be accurately determined.

Expenses for general overhauls of major large-scale plants are recognized separately at the cost of the overhaul as part of the related assets and depreciated over the period between one general overhaul and the next using the straight-line method.

Where assets comprise material components with different purposes, different properties, or different useful lives, the components are capitalized individually and depreciated over their useful lives.

When property, plant or equipment is sold, the difference between the net proceeds and the carrying amount is recognized as a gain or loss in other operating income or expenses.

Assets are depreciated by the straight-line method based on the following useful lives, which are applied uniformly throughout the Group:

Buildings	20 to 50 years
Outdoor infrastructure	10 to 20 years
Plant installations	6 to 20 years
Machinery and equipment	6 to 12 years
Laboratory and research facilities	3 to 5 years
Storage tanks and pipelines	10 to 20 years
Vehicles	5 to 8 years
Computer equipment	3 to 5 years
Furniture and fixtures	4 to 10 years

Leasing In accordance with IAS 17, leased assets where all substantive risks and rewards incidental to ownership are transferred (finance leases) are capitalized at the lower of their fair value or the present value of the minimum lease payments at the date of addition. They are depreciated over their useful lives. If subsequent transfer of title to the leased asset is uncertain, it is depreciated over the shorter of its estimated useful life or the lease term.

The future lease payments are recorded as financial liabilities. Liabilities under finance leases are recognized at the fair value of the leased asset at the inception of the lease or the present value of the minimum lease payments, whichever is lower. Thereafter the minimum lease payments are divided into financing costs and the portion representing repayment of the principal. In the case

of leasing contracts that do not include the transfer of all substantive risks and rewards incidental to ownership (operating leases), the lessee recognizes the lease payments as current expenses.

Property, plant and equipment also includes assets that LANXESS leases or rents out to third parties under agreements other than finance leases. However, if the lessee is to be regarded as the economic owner of the assets a receivable is recognized in the amount of the discounted future lease or rental payments.

Leasing arrangements may be embedded in other contracts. Where IFRS stipulates separation of the embedded leasing arrangement, the components of the contract are recognized and measured separately.

Financial instruments Financial instruments are contracts that give rise simultaneously to a financial asset for one party and a financial liability or equity instrument for the other. Under IAS 32, financial instruments include primary instruments, such as trade receivables or payables and financial assets or liabilities, as well as derivative financial instruments, which are used to hedge risks arising from changes in currency exchange rates, raw material prices or interest rates.

Trade accounts receivable and other financial receivables are recognized at amortized cost using the effective interest method. Write-downs for amounts unlikely to be recovered are recognized via impairment accounts.

Investments in affiliated companies and the equity instruments included in non-current assets are classified as “available-for-sale” financial assets and recognized at fair value in accordance with IAS 39, except where their fair value cannot be reliably determined, in which case they are recognized at cost. Where objective evidence exists that such assets may be impaired, they are written down as necessary on the basis of an impairment test.

Investments in companies included at equity are recognized at the amounts corresponding to LANXESS’s share in their equity in accordance with IAS 28 or IAS 31.

Financial assets held for trading are recognized at fair value. Any gain or loss arising from subsequent measurement is reflected in the income statement.

All other primary financial assets are classified as “available-for-sale” and recognized at fair value except if they are allocable to loans and receivables. Any gain or loss resulting from subsequent measurement, with the exception of write-downs and translation gains and losses, is recognized in other comprehensive income until the financial asset is derecognized.

LANXESS does not utilize the option of designating non-derivative financial assets or liabilities at fair value through profit or loss upon initial recognition.

In the case of regular-way purchases and sales, the settlement date is the relevant date for first-time recognition or derecognition of financial assets in the financial statements.

Derivative financial instruments and hedging transactions In accordance with IAS 39, the LANXESS Group recognizes derivative financial instruments as assets or liabilities at their fair value on the closing date. Gains and losses resulting from changes in fair value are recognized through profit or loss. Where foreign currency derivatives or forward commodity contracts used to hedge future cash flows from pending business or forecasted transactions qualify for hedge accounting under this standard, changes in the value of such instruments are recognized separately in other comprehensive income until the underlying transactions are realized. The amounts recognized here are subsequently released to other operating income or production costs as appropriate when the hedged transaction is recognized in the income statement. Any portion of the change in value of such derivatives deemed to be ineffective with regard to the hedged risk is recognized directly in the income statement. Changes in the fair value of interest-rate derivatives used to hedge long-term liabilities with variable interest rates – provided such derivatives qualify for hedge accounting – are recognized in other comprehensive income and subsequently released to the income statement as interest income/expense concurrently with the recognition of the income from the hedged transaction.

Contracts concluded for the purpose of receiving or delivering non-financial items based on expected purchases, sales or utilization and held for this purpose are recognized not as financial derivatives but as pending transactions. If the contracts contain embedded derivatives, the derivatives are accounted for separately from the host contract, provided that the economic characteristics and risks of the embedded derivative are not closely linked to those of the host contract.

Determination of fair value The principal methods and assumptions used in measuring the fair value of financial instruments are outlined below:

Trade receivables, other receivables and cash and cash equivalents are generally due within one year. Their carrying amount is therefore their fair value. Receivables due in more than one year are discounted using current interest rates to determine their fair value.

The fair value of securities is determined from their market price on the closing date, disregarding transaction costs.

The fair value of loans is determined from discounted future interest payments and capital repayment amounts.

The bonds are traded in an active, liquid market. Their fair values are the prices determined and published by the market.

The fair value of trade payables and other primary financial liabilities due within one year is their carrying amount. That of all other liabilities is determined by discounting them to present value where feasible.

The fair values of receivables and liabilities relating to finance leases are the present values of the net lease payments calculated using the market rate for comparable lease agreements.

Most of the derivative financial instruments used by LANXESS are traded in an active, liquid market. The fair values of forward exchange contracts are derived from their trading or listed prices using the “forward method.” Currency options are valued using an asset pricing model based on the Black & Scholes model. The fair values of forward commodity contracts are also derived from their trading or listed prices using the “forward method.” Where no market price is available, values are determined using recognized capital market pricing methods.

Inventories In accordance with IAS 2, inventories encompass assets held for sale in the ordinary course of business (finished goods and merchandise), assets in the process of being manufactured for sale (work in process) and assets consumed during the production process (raw materials and supplies). In accordance with IAS 2, inventories are valued by the weighted-average method and recognized at the lower of cost or net realizable value, which is the estimated selling price in the ordinary course of business less the estimated production costs and selling expenses.

The cost of production comprises the direct cost of materials, direct manufacturing expenses and appropriate allocations of fixed and variable material and manufacturing overheads at normal capacity utilization, where these are attributable to production.

It also includes expenses for company pension plans, corporate welfare facilities and discretionary employee benefits that can be allocated to production. Administrative costs are included where they are attributable to production.

In view of the production and distribution sequences characteristic of the LANXESS Group, work in process and finished goods are grouped together.

Cash and cash equivalents Cash and cash equivalents comprise cash, checks and balances with banks. Securities with maturities of up to three months from the date of acquisition are recognized in cash and cash equivalents in view of their high liquidity.

Non-current assets and liabilities held for sale Material assets are recognized as held for sale if they can be sold in their current condition and their sale is highly probable. Such assets may be individual non-current assets, groups of assets (disposal groups) or complete business entities. A disposal group may also include liabilities if these are to be divested together with the assets as part of the transaction.

Assets classified as held for sale are no longer depreciated. They are recognized at the lower of fair value less costs to sell or the carrying amount.

Provisions Provisions are recognized and measured in accordance with IAS 37 and, where appropriate, IAS 19 and IFRS 2, using the best estimate of the extent of the obligation. Non-current portions of material provisions due in more than one year are discounted to present value if the extent and timing of the obligation can be assessed with reasonable certainty. Where the projected obligation alters as the time of performance approaches (interest effect), the related expense is recognized in other financial expense.

Provisions for pensions and other post-employment benefits are established for defined-benefit pension plans. The provision is measured according to the actuarial present value of the obligation, calculated using the projected unit credit method. This takes

into account not only the known pensions and pension entitlements as of the closing date, but also expected future salary and benefit increases. Actuarial gains and losses and adjustments resulting from the asset ceiling and from minimum funding requirements for defined-benefit plans are recognized in full in other comprehensive income in the period in which they occur. They are recognized directly in retained earnings and cannot be reclassified to profit or loss in a subsequent reporting period.

If the projected obligation declines as a result of a change in the estimate, the provision is reversed by the corresponding amount and the effect is recognized in the income or expense item(s) in which the provision was originally recorded.

Personnel-related provisions mainly include those for annual bonus payments, payments under multi-year compensation programs and other personnel costs. Reimbursements to be received from the German government under the phased early retirement program are recorded as receivables and recognized in the income statement as soon as the criteria for such reimbursements are fulfilled.

The share-based remuneration program provides for cash settlement. Provisions are established for the obligations entered into under such programs on the basis of the proportionate fair value of the rights allocated to employees. The fair value is determined using the Monte Carlo method, in which future returns are simulated and the expected payment calculated from the value of the rights based on a two-dimensional standard distribution of returns.

The LANXESS Group also records provisions for current or pending legal proceedings where the resulting expenses can be reasonably estimated. These provisions include all estimated fees and legal costs and the cost of potential settlements. The amounts of such provisions are based upon information and cost estimates provided by the Group’s legal advisers. The provisions are regularly reviewed (at least once a quarter) together with the Group’s legal advisers and adjusted if necessary.

Contingent liabilities are potential obligations to third parties or existing commitments, the extent of which cannot be reasonably estimated or which are unlikely to lead to an outflow of resources. They are not recognized in the statement of financial position unless they have been entered into in connection with a business combination.

Liabilities Current liabilities are recognized at repayment or redemption amounts. Non-current liabilities are recognized at amortized cost. Financial liabilities that do not constitute either the hedged item or the hedging instrument in a permissible hedge accounting relationship are carried at amortized cost, calculated using the effective interest method.

Subsidies received from third parties for the acquisition or construction of property, plant and equipment are reflected in other liabilities and released to the income statement over the underlying period or expected useful life of the assets to which they relate.

Sales and other revenues Sales are recognized at the time the goods are delivered to the customer or the services are rendered, and are reported net of sales taxes and deductions. Revenues from contracts that contain customer acceptance provisions are deferred until customer acceptance occurs or the contractual acceptance period lapses. Allocations to provisions for rebates to customers are recognized in the period in which revenue recognition legally occurs. Received payments relating to the sale or licensing of technologies or technological expertise are recognized in income as of the effective dates of the respective agreements, provided that all rights and obligations relating to the technologies concerned are relinquished under the contract terms. However, if rights to the technologies continue to exist or obligations resulting from them still have to be fulfilled, the payments received are recorded in line with the actual circumstances. Revenues such as license fees, rental payments, interest income and dividends are recognized according to the same principles.

Research and development expenses According to IAS 38, research costs cannot be capitalized, whereas development costs must be capitalized if, and only if, specific narrowly defined conditions are fulfilled. Development costs must be capitalized if it is sufficiently certain that the future economic benefits to the company will cover not only the usual production, selling and administrative costs but also the development costs themselves. However, since the development of new products and processes frequently involves uncertainties, the conditions for capitalization of development costs are not generally met.

Income taxes This item comprises the income taxes paid or accrued in the individual countries, plus deferred taxes. Computation is based on local tax rates.

Income tax liabilities comprise the liabilities relating to the year under review and any liabilities relating to previous years.

In accordance with IAS 12, deferred taxes are calculated for temporary differences between the carrying amounts of assets or liabilities in the statement of financial position and its tax base and for differences arising from consolidation measures or realizable tax loss carryforwards. Deferred taxes are calculated at the rates which – on the basis of the statutory regulations in

force, or already enacted in relation to future periods, as of the closing date – are expected to apply in the individual countries at the time of realization.

The carrying amount of deferred tax assets is reviewed at each closing date and only the amount likely to be realizable due to future taxable income is recognized. Deferred tax assets from loss carryforwards are recognized if it is probable that the carryforwards can be utilized.

Deferred tax assets and liabilities are netted if they relate to income taxes levied by the same tax authorities.

Statement of cash flows The statement of cash flows shows how cash inflows and outflows during the year affected the cash and cash equivalents of the LANXESS Group. The effects of acquisitions, divestments and other changes in the scope of consolidation are eliminated. Cash flows are classified by operating, investing and financing activities in accordance with IAS 7. The liquidity reported in the statement of cash flows comprises only cash and cash equivalents.

Global impairment testing procedure and impact In the LANXESS Group, non-current assets are tested for impairment by comparing the residual carrying amount of each cash-generating unit with its recoverable amount. In the LANXESS Group these impairment tests are performed at least once a year. Related information is also contained in the section headed "Estimation uncertainties and exercise of discretion."

The LANXESS Group defines its business units as the cash-generating units. However, if there is reason to suspect impairment of non-current assets below business-unit level, such assets are also tested for impairment, and any impairment loss is recognized in the income statement.

The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use. If the carrying amount of a cash-generating unit exceeds the recoverable amount, an impairment loss is recognized. The fair value less costs to sell is the best estimate of the price that would be obtained by selling the cash-generating unit to a third party at the time of valuation less the estimated selling costs. The value in use is defined as the present value of future cash flows based on the continuing use of the asset and its retirement at the end of its useful life. The first step in an impairment test is to determine the fair value less costs to sell. If this is less than the carrying amount of the cash-generating unit, the value in use is then determined.

The recoverable amount is calculated from a forecast of future cash flows based on the LANXESS Group's current long-term planning. This planning is based on the latest approved five-year plan, which is in turn built on past experience and the Board of Management's estimates of expected market conditions, including assumptions regarding future raw material prices, cost of sales, selling expenses, research and development expenses, general administration expenses and exchange rates. The present value of future cash flows is calculated by discounting them using a weighted capital cost factor. The capital cost factor is derived according to IAS 36 from capital market models, taking into account the capital structure and business risks specific to the chemical industry.

If the impairment test reveals a need to recognize an impairment loss, the first step is to write down the goodwill of the strategic business units concerned. For this purpose, goodwill is allocated among the strategic business units on the basis of use before the impairment test. Any remaining impairment amount is allocated proportionately among the other non-current assets of the strategic business unit on the basis of their net carrying amounts at the closing date.

Impairment losses are fully recognized in the income statement under other operating expenses and reflected in the segment reporting in the expenses of the respective segments.

CHANGES IN RECOGNITION AND VALUATION PRINCIPLES

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have adopted a number of amendments to accounting standards which became mandatory for the first time in 2009.

Presentation of the financial statements Near-cash assets are reported on the face of the statement of financial position for the first time to enhance the clarity of the Group financial statements. This item includes units of money market funds that can be sold at any time and are expected to be realized within twelve months after the closing date.

Due to the revised version of IAS 1 that entities are required to apply from 2009 forward, a reconciliation of income after taxes to total comprehensive income showing the components of other comprehensive income (statement of comprehensive income) has been prepared in addition to the income statement. The presentation of the statement of changes in equity has also been modified

in this connection.

The revised version of IAS 1 requires the additional publication of an opening statement of financial position for the earliest comparative period if changes in accounting policies are applied retroactively. In view of the change in the accounting for pension and other post-employment benefit obligations outlined below, an opening statement of financial position as of January 1, 2008 is presented. Explanatory notes are only included for the items affected by the change. Where no comment is made on the carrying amount of an item as of January 1, 2008, it has not been affected by the accounting change.

Accounting for pension and other post-employment benefit obligations LANXESS decided to change the accounting treatment of provisions for pension and other post-employment benefit obligations in order to improve the transparency of financial reporting. Actuarial gains and losses in the LANXESS Group are no longer accounted for under the 10% corridor rule. Instead they are recognized in full outside profit or loss as a component of other comprehensive income in the period in which they occur. The LANXESS Group has also applied the interpretation IFRIC 14 for the first time following its adoption by the E.U. This concerns the asset ceiling and the minimum funding requirements for defined-benefit pension plans.

In compliance with the applicable financial reporting standards, the change in the accounting for pension and other post-employment benefit obligations has been applied retroactively. The impact on the relevant items of the statement of financial position as of January 1, 2008 and December 31, 2008 is as follows:

Impact on Statement of Financial Position as of Jan. 1, 2008

€ million	Jan. 1, 2008 (previous accounting)	Effect from change in accounting	Jan. 1, 2008 (new accounting)
ASSETS			
Investments accounted for using the equity method	33	(8)	25
Deferred taxes	93	21	114
Other non-current assets	102	(78)	24
EQUITY AND LIABILITIES			
Other reserves	923	(110)	813
Provisions for pensions and other post-employment benefits	470	65	535
Deferred taxes	60	(20)	40

Impact on Statement of Financial Position as of Dec. 31, 2008

€ million	Dec. 31, 2008 (previous accounting)	Effect from change in accounting	Dec. 31, 2008 (new accounting)
ASSETS			
Investments accounted for using the equity method	49	(7)	42
Deferred taxes	137	17	154
Other non-current assets	134	(69)	65
EQUITY AND LIABILITIES			
Other reserves	840	(78)	762
Net income	171	12	183
Other equity components	(509)	(2)	(511)
Provisions for pensions and other post-employment benefits	483	15	498
Deferred taxes	47	(6)	41

The change in accounting increased the operating result (EBIT) previously reported for fiscal 2008 by €1 million and the financial result by €16 million, while the accounting for deferred taxes led to tax expense of €5 million.

Segment reporting The segment reporting has been prepared according to IFRS 8 for the first time. The key difference between IFRS 8 and IAS 14, which was applied for the last time in the consolidated financial statements as of December 31, 2008, is that IFRS 8 follows the so-called management approach. This means that the amount reported for each segment item must be the same as that notified to the company's chief operating decision maker (CODM). Since the earnings figure used for management accounting purposes within the LANXESS Group is the operating result before depreciation and amortization (EBITDA) pre exceptionals, this is the amount now disclosed as the "segment result." A reconciliation of EBITDA pre exceptionals to income before taxes is also provided.

Notes to financial instruments In March 2009 the IASB published amendments to IFRS 7 stipulating extended disclosures on the fair-value measurement of financial instruments and on liquidity risks. For example, it introduces a three-level hierarchy for the measurement of financial instruments at fair value. Since the changes relate only to disclosure requirements, their first-time application had no material impact on the financial position or results of operations of the LANXESS Group.

Other changes The following accounting standards and interpretations had to be applied for the first time in 2009 but currently have no impact, or no material impact, on the LANXESS Group:

- IFRIC 11: IFRS 2 – Group and Treasury Share Transactions
- IFRIC 13: Customer Loyalty Programmes
- IAS 23: Borrowing Costs
- IFRS 2: Amendments to IFRS 2 – Vesting Conditions and Cancellations
- IAS 32 and IAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation – Amendments to IAS 32 and IAS 1
- Various IAS and IFRSs: "Improvements to IFRSs" (2008)

• IFRS 1 and IAS 27: Cost of an investment in a subsidiary, jointly controlled entity or associate in the separate financial statements of the parent company – Amendments to IFRS 1 and IAS 27
• IFRIC 9 and IAS 39: Reassessment of embedded derivatives following reclassification of financial assets – Amendments to IFRIC 9 and IAS 39.

NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET MANDATORY

In 2009 the LANXESS Group did not yet apply certain further accounting standards and interpretations that had already been issued by the IASB and IFRIC but were not mandatory for that year. The application of these standards and interpretations is in some cases contingent upon their adoption by the E.U. It is therefore possible that the dates for mandatory application may ultimately be later than indicated below.

Revised versions of IFRS 3 and IAS 27 were published in January 2008. The new version of IFRS 3 defines the scope of the standards and the accounting treatment of purchase price components, minority interests and goodwill. It also specifies which assets, liabilities and contingent liabilities are to be recognized. The new version of IAS 27 mainly addresses the treatment of share purchases and sales effected when a company gains, loses or maintains its ability to exercise control. The revised versions of IFRS 3 and IAS 27 are to be applied largely prospectively to fiscal years beginning on or after July 1, 2009. Depending on the type and scope of future transactions, the amendments could have an impact on the financial position and results of operations of the LANXESS Group in the future, though it is not possible to estimate that impact at the present time.

In November 2009, the IASB issued IFRS 9. The new standard represents the first of three phases in the complete replacement of IAS 39 and introduces fundamental changes to the previous rules on classification and measurement of financial assets. IFRS 9 is to be applied for annual periods beginning on or after January 1, 2013. The LANXESS Group is currently evaluating what impact the application of IFRS 9 will have on its financial position and results of operations.

The following accounting standards and interpretations currently have no impact, or no material impact, on the LANXESS Group.

Standard/Interpretation		Date of publication	Mandatory for LANXESS as of fiscal year	Adoption by the E.U.
IFRIC 12	Service Concession Arrangements	Nov. 30, 2006	2010[1)]	yes
IFRS 5	Improvements to IFRSs (2008) – Amendments to IFRS 5	May 22, 2008	2010	yes
IFRIC 15	Agreements for the Construction of Real Estate	July 3, 2008	2010[1)]	yes
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	July 3, 2008	2010[1)]	yes
IAS 39	Suitable Host Contracts – Amendments to IAS 39	July 31, 2008	2010	yes
IFRIC 17	Distributions of Non-cash Assets to Owners	Nov. 27, 2008	2010	yes
IFRS 1	First-time Adoption of International Financial Reporting Standards	Nov. 27, 2008	–	yes
IFRIC 18	Transfers of Assets from Customers	Jan. 29, 2009	2010	yes
Various IAS and IFRS	Improvements to IFRSs (2009)	April 16, 2009	2010 in most cases	no
IFRS 2	Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2	June 18, 2009	2010	no
IFRS 1	Additional Exemptions for First-time Adopters	July 23, 2009	–	no
IAS 32	Classification of Rights Issues	Oct. 8,2009	2011	yes
IAS 24	Related Party Disclosures	Nov. 4, 2009	2011	no
IFRIC 14	Prepayments of a Minimum Funding Requiremen	Nov. 26, 2009	2011	no
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	Nov. 26, 2009	2011	no
IFRS 1	Temporary Exemption from Comparative IFRS 7 Disclosures	Jan. 28, 2010	–	no

1) Date of mandatory adoption altered during the E.U. endorsement process

ESTIMATION UNCERTAINTIES AND EXERCISE OF DISCRETION

The preparation of consolidated financial statements in accordance with IFRS entails the selection of recognition and valuation principles and the use of forward-looking assumptions and estimates that may affect the valuation of assets and liabilities, income and expenses and contingent liabilities.

All assumptions and estimates used in the consolidated financial statements are based on management's expectations and thus take into account the repercussions of the financial and economic crisis. Information that could alter these estimates is reviewed continually and may result in adjustments to the carrying amounts of the respective assets and liabilities.

Assumptions and estimates that could materially impact the valuation of the LANXESS Group's assets and liabilities are discussed below.

The LANXESS Group tests its cash-generating units for impairment at least once a year by determining the respective recoverable amount (for further information see the section headed "Recognition and Valuation Principles"). The test is based on forecasts of future cash flows, derived from reasonable assumptions representing the management's best assessment of the economic circumstances at the time of the impairment test. Management's expectations of future cash flows therefore indirectly affect the valuation of assets and goodwill.

The assumptions and estimates used for the impairment test conducted on assets in fiscal 2009 could differ from the actual values in subsequent periods, necessitating subsequent valuation adjustments. In 2009, the impairment test on cash-generating units was performed solely by determining their fair values less costs to sell based on a discount rate of 7.7% and without using growth rates to extrapolate the last year of the forecasting period. As in the previous year, an increase of one percentage point in the discount rate or a reduction of 10% in expected future cash flows would not have led to write-downs. Similarly, a reduction of one percentage point in the discount rate or an increase of 10% in expected future cash flows would not have led to write-ups in 2009 (2008: €59 million).

The goodwill of €93 million arising on the acquisition of Petroflex in 2008 was allocated in full to the Performance Butadiene Rubbers business unit. The goodwill of €12 million arising on the acquisition of Gwalior in fiscal 2009 (see the section headed "Companies Consolidated") was allocated to the Basic Chemicals business unit. The goodwill from both acquisitions was tested for impairment as of the closing date. Neither a one percentage point increase in the discount rate nor a 10% reduction in expected future cash flows would have necessitated an impairment write-down on this goodwill.

The recognition and measurement of provisions are also affected by assumptions as to the probability of utilization, the underlying discount rate and the absolute level of risk. The LANXESS Group performed sensitivity analyses on all provisions existing as of December 31, 2009 as required by the IFRS. These involved calculating the impact of variations in the parameters used, especially probability of occurrence, discount rate and absolute level of risk. The outcome of these sensitivity analyses shows that variations in the assumptions described above would not have a material impact on the level of other provisions reported in the consolidated financial statements of the LANXESS Group. For further information on the sensitivity analyses relating to provisions for pension and other post-employment benefits, see Note [12].

Defined-benefit pension plans also necessitate actuarial computations and valuations. The section on provisions for pension and other post-employment benefit obligations contains information on the assumptions on which the actuarial calculations and estimates were based (see Note [12]).

There is also a degree of uncertainty surrounding the assessment of certain tax situations by the tax authorities. Although the LANXESS Group believes it has presented all tax-relevant information correctly and in compliance with the law, it is possible that the tax authorities may occasionally reach different conclusions.

Other significant estimates are used to assess the useful lives of intangible assets and property, plant and equipment, the probability of collecting receivables and other assets, the valuation of inventories and the ability to realize tax claims and deferred tax assets recognized for temporary differences and tax loss carryforwards.

Up to the time these consolidated financial statements were prepared, no circumstances had become known that would necessitate a major change in such estimates.

COMPANIES CONSOLIDATED

Changes in the scope of consolidation The consolidated financial statements of the LANXESS Group include the parent company LANXESS AG along with all of its material domestic and foreign subsidiaries.

On September 1, 2009 the Indian subsidiary LANXESS India Private Ltd., Thane, acquired the chemical businesses and production facilities of the listed Indian company Gwalior Chemical Industries Ltd. (Gwalior), headquartered in Mumbai. Also effective September 1, 2009, the LANXESS Group purchased the businesses and production facilities of Jiangsu Polyols Chemical Co. Ltd., Liyang, China. The acquisitions were financed mainly out of existing liquidity of the LANXESS Group. These activities, which are allocated to the Advanced Intermediates segment, were included in the consolidated financial statements of the LANXESS Group with effect from September 1, 2009.

Since the date of acquisition, the acquired businesses contributed €18 million to LANXESS Group sales and less than €1 million to net income. Had these businesses already been acquired as of January 1, 2009, they would have contributed approximately €56 million to LANXESS Group sales and about €4 million to net income in fiscal 2009.

The acquisitions were accounted for as business combinations in accordance with IFRS 3 (2004). The purchase price allocations reflected the fair values of the identifiable assets, liabilities and contingent liabilities of the acquired companies. The remaining difference of €12 million represents the goodwill acquired with the Gwalior business. Details of the purchase price allocation and the effects of the acquisitions on the LANXESS Group's statement of financial position are given below:

Additions from Acquisitions

€ million	2009		
	IFRS carrying amounts prior to first-time consolidation	Purchase price allocation	Carrying amounts upon first-time consolidation
Intangible assets	2	13	15
Property, plant and equipment	43	3	46
Other assets	15	–	15
Total assets	**60**	**16**	**76**
Non-current liabilities	–	–	–
Current liabilities	2	–	2
Total liabilities	**2**	**–**	**2**
Net acquired assets (excluding goodwill)	**58**	**16**	**74**
Acquisition costs			**86**
Acquired goodwill (provisional valuation)			**12**

The purchase price allocation is provisional and was carried out with the aid of reports from external experts and in the light of the information available at and immediately after the date of acquisition. According to IFRS, the purchase price allocation is subject to adjustment within one year after the acquisition date to reflect new information and findings.

The goodwill remaining after the purchase price allocation is the result of various factors. The goodwill resulting from the acquisition of the Gwalior business reflects advantageous production conditions attaching to the location that cannot be stated as a separate intangible asset, along with synergies arising from the creation of production capacities, product extensions and market potential, especially in the BRIC countries. The acquisition is thus a further step in LANXESS's long-term growth strategy.

The above €86 million cost of acquisition includes external consultancy fees constituting ancillary costs of acquisition.

The company OOO LANXESS, Dzerzhinsk, Russia, was also consolidated for the first time. Through this company LANXESS steers its business in Russia and other countries of the Commonwealth of Independent States (CIS). The first-time consolidation of this company did not have a material impact on the LANXESS Group's financial position or results of operations.

Intra-Group mergers had no impact on the assets or liabilities recognized in the financial statements of the LANXESS Group as they merely involved the transfer of assets and liabilities between fully consolidated Group companies.

LANXESS Yaxing Chemical (Weifang) Co., Ltd., Weifang, China, was deconsolidated in fiscal 2009 after being divested. This had no material impact on the financial position or results of operations of the LANXESS Group. No subsidiaries were deconsolidated in 2008.

The consolidated financial statements of the LANXESS Group as of December 31, 2009 include 59 (2008: 61) fully consolidated companies. The 40% interest in CURRENTA GmbH & Co. OHG, Leverkusen, Germany, and the 25% interest in Anhui Tongfeng Shengda Chemicals Company Limited, Tongling, China, are accounted for using the equity method.

First-time consolidation of the companies of the Petroflex group (now LANXESS Elastômeros do Brasil S.A., Rio de Janeiro, Brazil), which were acquired in the previous year, was effected as of April 1, 2008. The acquisition had the following impact on the consolidated statement of financial position of the LANXESS Group as of December 31, 2008:

Additions from the Acquisition of the Petroflex Group

€ million	**2008**		
	IFRS carrying amounts prior to first-time consolidation	Purchase price allocation	Carrying amounts upon first-time consolidation
Intangible assets	5	34	39
Property, plant and -equipment	131	36	167
Other assets	280	51	331
Total assets	**416**	**121**	**537**
Non-current liabilities	103	56	159
Current liabilities	212	–	212
Total liabilities	**315**	**56**	**371**
Net acquired assets (excluding goodwill)	**101**	**65**	**166**
Acquisition costs			**259**
Acquired goodwill (provisional valuation)			**93**

The purchase price allocation for this acquisition was provisional and was subject to adjustment within one year after the acquisition date to reflect new information and findings. The provisional purchase price allocation had not changed by March 31, 2009, so the figures in the above table are final.

Other information on companies consolidated The principal consolidated companies are listed in the following table:

Company Name and Headquarters	
in %	**Interest Held**
Germany	
ALISECA GmbH, Leverkusen	100
LANXESS Buna GmbH, Marl	100
LANXESS Deutschland GmbH, Leverkusen	100
LANXESS Distribution GmbH, Langenfeld	100
Rhein Chemie Rheinau GmbH, Mannheim	100
SALTIGO GmbH, Langenfeld	100
EMEA (excluding Germany)	
LANXESS Elastomères S.A.S., Lillebonne, France	100
LANXESS Emulsion Rubber S.A.S., La Wantzenau, France	100
LANXESS Finance B.V., Ede, Netherlands	100
LANXESS International SA, Granges-Paccot, Switzerland	100
LANXESS Limited, Newbury, U.K.	100
LANXESS (Pty.) Ltd., Modderfontein, South Africa	100
LANXESS N.V., Antwerp, Belgium	100
LANXESS Rubber N.V., Zwijndrecht, Belgium	100
LANXESS S.r.l., Milan, Italy	100
North America	
LANXESS Buna LLC, Wilmington, U.S.	100
LANXESS Corporation, Pittsburgh, U.S.	100
LANXESS Inc., Sarnia, Canada	100

Latin America

LANXESS Elastômeros do Brasil S.A., Rio de Janeiro, Brazil	100
LANXESS Industria de Produtos Quimicos e Plasticos Ltda., São Paulo, Brazil	100
LANXESS S.A., Buenos Aires, Argentina	100
LANXESS S.A. de C.V., Mexico City, Mexico	100

Asia-Pacific

LANXESS Wuxi Chemicals Co. Ltd., Wuxi, China	100
LANXESS Hong Kong Ltd., Hong Kong, China	100
LANXESS India Private Ltd., Thane, India	100
LANXESS K.K., Tokyo, Japan	100
LANXESS Pte. Ltd., Singapore, Singapore	100
LANXESS PTY Ltd., Homebush Bay, Australia	100
LANXESS (Shanghai) Trading Co. Ltd., Shanghai, China	100

A complete list of the LANXESS Group's ownership interests is published in the electronic version of the German Federal Gazette (Bundesanzeiger) and is also available directly from LANXESS AG on request.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

1 Intangible assets Changes in intangible assets were as follows:

Changes in Intangible Assets in 2008

€ million	Concessions, industrial property rights, similar rights and assets, and licenses to such rights and assets	Acquired goodwill	Advance payments	Total
Cost of acquisition or generation on Dec. 31, 2007	153	16	7	176
Changes in scope of consolidation/acquisition	41	93		134
Capital expenditures	1		13	14
Disposals	(86)	(1)		(87)
Reclassifications	19		(19)	0
Exchange differences	(5)	(14)		(19)
Cost of acquisition or generation on Dec. 31, 2008	**123**	**94**	**1**	**218**
Accumulated amortization and write-downs on Dec. 31, 2007	(137)	(6)	0	(143)
Changes in scope of consolidation				0
Amortization and write-downs in 2008	(20)			(20)
of which write-downs	(3)			(3)
Disposals	87			87
Reclassifications				0
Exchange differences	2	1		3
Accumulated amortization and write-downs on Dec. 31, 2008	**(68)**	**(5)**	**0**	**(73)**
Carrying amounts on Dec. 31, 2008	**55**	**89**	**1**	**145**

Changes in Intangible Assets in 2009

€ million	Concessions, industrial property rights, similar rights and assets, and licenses to such rights and assets	Acquired goodwill	Advance payments	Total
Cost of acquisition or generation on Dec. 31, 2008	123	94	1	218
Changes in scope of consolidation/acquisition	15	12		27
Capital expenditures	5		5	10
Disposals	(18)			(18)
Reclassifications	2		(2)	0
Exchange differences	10	22		32
Cost of acquisition or generation on Dec. 31, 2009	**137**	**128**	**4**	**269**
Accumulated amortization and write-downs on Dec. 31, 2008	(68)	(5)	0	(73)
Changes in scope of consolidation				0
Amortization and write-downs in 2009	(13)			(13)
of which write-downs				0
Disposals	17			17
Reclassifications				0
Exchange differences	(4)			(4)
Accumulated amortization and write-downs on Dec. 31, 2009	**(68)**	**(5)**	**0**	**(73)**
Carrying amounts on Dec. 31, 2009	**69**	**123**	**4**	**196**

2 Property, plant and equipment Changes in property, plant and equipment were as follows:

Changes in Property, Plant and Equipment in 2008

€ million	Land and buildings	Technical equipment and machinery	Other fixtures, fittings and equipment	Advance payments and assets under construction	Total
Cost of acquisition or construction on Dec. 31, 2007	1,126	4,860	196	140	6,322
Changes in scope of consolidation/acquisition	67	88	4	20	179
Capital expenditures	6	68	10	258	342
Disposals	(36)	(155)	(11)	(6)	(208)
Reclassifications	17	137	(17)	(137)	0
Exchange differences	(13)	(80)	(2)	(5)	(100)
Cost of acquisition or construction on Dec. 31, 2008	**1,167**	**4,918**	**180**	**270**	**6,535**
Accumulated depreciation and write-downs on Dec. 31, 2007	(813)	(3,901)	(149)	0	(4,863)
Changes in scope of consolidation					
Depreciation and write-downs in 2008	(37)	(216)	(6)		(259)
of which write-downs	(5)	(12)			(17)
Disposals	26	151	9		186
Reclassifications					0
Exchange differences	1	44	2		47
Accumulated depreciation and write-downs on Dec. 31, 2008	**(823)**	**(3,922)**	**(144)**	**0**	**(4,889)**
Carrying amounts on Dec. 31, 2008	**344**	**996**	**36**	**270**	**1,646**

Changes in Property, Plant and Equipment in 2009

€ million	Land and buildings	Technical equipment and machinery	Other fixtures, fittings and equipment	Advance payments and assets under construction	Total
Cost of acquisition or construction on Dec. 31, 2008	1,167	4,918	180	270	6,535
Changes in scope of consolidation/acquisition	(8)	1	1	10	4
Capital expenditures	7	118	10	197	332
Disposals	(32)	(108)	(9)	(2)	(151)
Reclassifications	32	166	10	(208)	0
Exchange differences	22	72	3	8	105
Cost of acquisition or construction on Dec. 31, 2009	**1,188**	**5,167**	**195**	**275**	**6,825**
Accumulated depreciation and write-downs on Dec. 31, 2008	(823)	(3,922)	(144)	0	(4,889)
Changes in scope of consolidation	4	29			33
Depreciation and write-downs in 2009	(37)	(208)	(15)		(260)
of which write-downs	(8)	(7)			(15)
Disposals	27	103	9		139
Reclassifications					0
Exchange differences	(4)	(33)	(2)		(39)
Accumulated depreciation and write-downs on Dec. 31, 2009	**(833)**	**(4,031)**	**(152)**	**0**	**(5,016)**
Carrying amounts on Dec. 31, 2009	**355**	**1,136**	**43**	**275**	**1,809**

Capitalized property, plant and equipment includes assets with a total net value of €77 million (2008: €40 million) held under finance leases. The gross carrying amounts of these assets at the closing date totaled €161 million (2008: €117 million).

These assets are mainly machinery and technical equipment with a carrying amount of €62 million and a cost of acquisition or construction of €136 million (2008: carrying amount €24 million, cost of acquisition or construction €92 million) and buildings with a carrying amount of €15 million and a cost of acquisition or construction of €25 million (2008: carrying amount €16 million, cost of acquisition or construction €25 million). In the case of buildings, either the present value of the minimum lease payments substantially covers their fair value, or title passes to the lessee on expiration of the lease.

3 Investments accounted for using the equity method As in the previous year, the companies included in the consolidated financial statements for 2009 using the equity method are CURRENTA GmbH & Co. OHG, Leverkusen, Germany, and Anhui Tongfeng Shengda Co. Ltd., Tongling, China.

The following table shows the main items included in the income statement and statement of financial position related to these associates:

Income from Investments Accounted for using the Equity Method

€ million	2008	2009
Sales	1,527	1,123
Income from investments accounted for using the equity method	21	8

Investments Accounted for using the Equity Method

€ million	Jan. 1, 2008	Dec. 31, 2008	Dec. 31, 2009
Assets	994	957	855
Liabilities	814	778	669
Equity	**180**	**179**	**186**
Adjustment of LANXESS's interest and equity valuation	(155)	(137)	(160)
Investments accounted for using the equity method	**25**	**42**	**26**

The €16 million decrease (2008: €17 million increase) in the carrying amount of investments accounted for using the equity method arises from the equity-method income after adjustment for a gain of €1 million (2008: €0 million) on the value of cash flow hedges at CURRENTA GmbH & Co. OHG, Leverkusen, Germany, previously recognized in other comprehensive income and now released to the income statement, and the impact of the pro rata income transfer of €23 million (2008: €4 million) from that company.

4 Investments in other affiliated companies This item contains interests in other affiliated companies totaling €1 million (2008: €2 million). The decrease is due primarily to the first-time consolidation of OOO LANXESS, Dzerzhinsk, Russia, in fiscal 2009.

The other investments classified as available-for-sale financial assets consist of non-listed equity instruments whose fair values could not be reliably determined. These are therefore recognized at cost in the consolidated financial statements as of December 31, 2009, at an amount of €1 million (2008: €2 million). There are currently no plans to dispose of these investments.

5 Other non-current and current financial assets

Other Non-Current and Current Financial Assets

€ million	Dec. 31, 2008		
	Non-current	Current	Total
Available-for-sale financial assets	31	64	95
Receivables under finance leases	10	2	12
Other financial receivables	31	89	120
	72	**155**	**227**

Other Non-Current and Current Financial Assets

€ million	Dec. 31, 2009		
	Non-current	Current	Total
Available-for-sale financial assets	52	2	54
Receivables under finance leases	8	2	10
Other financial receivables	19	142	161
	79	**146**	**225**

The available-for sale non-current financial assets comprise €51 million in bearer securities of an exchange-traded index fund. Accounts receivable of €10 million (2008: €12 million) relate to lease agreements in which the other party, as lessee, is to be regarded as the economic owner of the leased assets (finance leases).

The leasing receivables are due as follows:

Maturity Structure of Lease Payments

€ million	Dec. 31, 2008		
	Lease payments	Interest portion	Leasing receivables
Up to 1 year	2	0	2
1 to 5 years	9	1	8
More than 5 years	2	0	2
	13	**1**	**12**

Maturity Structure of Lease Payments

€ million	Dec. 31, 2009		
	Lease payments	Interest portion	Leasing receivables
Up to 1 year	2	0	2
1 to 5 years	9	1	8
More than 5 years	0	0	0
	11	**1**	**10**

Other financial receivables include fixed-term investments of €137 million (2008: €80 million) bearing interest at a weighted average effective rate of 0.7% (2008: 2.9%).

None of the receivables included in other financial assets are impaired or overdue. There were no indications as of the closing date that the respective debtors would not meet their payment obligations.

6 Other non-current assets Other non-current assets are carried at amortized cost less write-downs. No write-downs were necessary in 2008 or 2009.

Other non-current assets comprised:

Other Non-Current Assets

€ million	Jan. 1, 2008	Dec. 31, 2008	Dec. 31, 2009
Receivables from pension obligations	9	47	68
Other receivables	15	18	24
	24	**65**	**92**

7 Inventories The inventories of the LANXESS Group comprised:

Inventories

€ million	Dec. 31, 2008	Dec. 31, 2009
Raw materials and supplies	232	177
Work in process, finished goods and merchandise	816	672
	1,048	**849**

Inventories of €175 million (2008: €256 million) are reflected at their net realizable value. Write-downs of inventories were as follows:

Write-downs of Inventories

€ million	Dec. 31, 2008	Dec. 31, 2009
Balance at beginning of year	(63)	(148)
Additions charged as expenses	(112)	(46)
Reversals/utilization	22	120
Exchange differences	5	(5)
Balance at end of year	**(148)**	**(79)**

8 Trade receivables Trade receivables are stated after write-downs of €22 million (2008: €30 million) for amounts unlikely to be recovered. These write-downs related to gross receivables of €29 million (2008: €35 million).

All trade receivables – totaling €733 million (2008: €725 million) – are due within one year. Trade receivables of €2 million (2008: €7 million) related to other affiliated companies and €731 million (2008: €718 million) to other customers.

Changes in write-downs of trade receivables were as follows:

Write-Downs of Trade Receivables

€ million	Dec. 31, 2008	Dec. 31, 2009
Balance at beginning of year	(17)	(30)
Additions charged as expenses	(22)	(9)
Reversals/utilization	9	17
Balance at end of year	**(30)**	**(22)**

The maturity structure of overdue trade receivables is as follows:

Maturity Structure of Overdue Payments

€ million	Dec. 31, 2008	Dec. 31, 2009
Carrying amount of trade receivables	725	733
of which unimpaired and not overdue	589	636
of which unimpaired and overdue by		
up to 30 days	105	77
between 31 and 60 days	15	9
between 61 and 90 days	6	2
more than 90 days	5	2

With regard to trade receivables that were neither impaired nor overdue, there were no indications as of the closing date that the respective debtors would not meet their payment obligations.

9 Near-cash assets The near-cash assets of €402 million (2008: €0 million) comprise units of money market funds that can be sold at any time and are expected to be realized within 12 months after the closing date.

10 Other current assets Other receivables and other assets are stated at amortized cost, less write-downs of €9 million (2008: €10 million). They principally comprise miscellaneous claims for tax refunds amounting to €75 million (2008: €97 million).

11 Equity

Share buyback and retirement The Annual Stockholders' Meeting of LANXESS AG on May 7, 2009, authorized the Board of Management to acquire shares in the company representing up to 10% of the capital stock up to November 5, 2010 and to utilize them for any purpose permitted by law. This authorization may also be utilized by subsidiaries of the company or by third parties on behalf of the company or its subsidiaries. At the discretion of the Board of Management, such shares may be acquired either in the market or via a public tender offer. The Board of Management is authorized to utilize the acquired shares for any purpose permitted by law. In particular, it may retire the shares, sell them over the counter, or transfer them in return for contributions in kind, provided that this is done in order to acquire companies, parts of companies or equity interests in companies, to effect mergers, or to satisfy conversion rights or warrants attached to convertible or warrant bonds, profit-participation rights, income bonds or combinations of such instruments. Subscription rights of the stockholders shall be excluded in the above cases, except when the shares are retired.

Capital stock The capital stock of LANXESS AG was €83,202,670 and thus unchanged from the previous year. It is divided into 83,202,670 no-par shares. All shares carry the same rights and obligations. One vote is granted per share and determines the share of the profit.

Authorized capital As of December 31, 2009 the company's authorized capital comprised the following:

The Annual Stockholders' Meeting of LANXESS AG on May 7, 2009 authorized the Board of Management up to May 6, 2014 to increase the company's capital stock, with the approval of the Supervisory Board, by issuing new no-par shares against cash or non-cash contributions in one or more installments up to a total of €16,640,534. This resolution on authorized capital was entered in the Commercial Register on May 20, 2009. Stockholders must normally be granted subscription rights to any authorized capital issued. However, with the approval of the Supervisory Board, the Board of Management is authorized to exclude subscription rights for stockholders in certain circumstances.

Conditional capital As of December 31, 2009 the company's contingent capital comprised the following:

Conditional capital I und II
At the Annual Stockholders' Meeting on May 31, 2007, the Board of Management was authorized until May 31, 2012 to issue – in one or more installments – convertible bonds and/or warrant bonds, profit-participation rights and/or income bonds (or any

combination of these instruments), either as registered or as bearer bonds, with or without limited maturity, with a total nominal value of €500,000,000 in either case and to grant the bearer or creditors of bonds conversion or subscription rights to no-par bearer shares in the company's capital stock up to a total of €21,155,167. This constitutes a conditional increase in the capital stock of LANXESS AG of up to €21,155,167 in either case (conditional capital I and II). The conditional increase serves the purpose of granting no-par bearer shares to the holders or creditors of convertible and/or warrant bonds, profit-participation rights and/or income bonds (or any combination of these instruments). The two authorizations to issue warrant and/or convertible bonds, profit-participation rights and/or income bonds (or any combination of these instruments), combined with the creation of conditional capital, are essentially identical. The only difference is the conversion or warrant price. The Board of Management will only utilize one of these two authorizations. The resolution adopted at the Annual Stockholders' Meeting authorizes the Board of Management, subject to the approval of the Supervisory Board, to exclude stockholders' subscription rights in certain circumstances when issuing convertible and/or warrant bonds, profit-participation rights and/or income bonds (or any combination of these instruments). Subscription rights may be excluded for residual amounts arising from the subscription ratio if the issue price of the new shares is not significantly lower than the market price at the time when the issue price is being finalized and the new shares issued do not exceed 10% of the capital stock, either at the time this authorization takes effect or at the time it is utilized; if the profit-sharing rights or income bonds are vested with bond-like characteristics; and if bonds are issued in return for contributions in kind for the purpose of acquiring companies, parts of companies or equity interests in companies and the contribution in kind adequately reflects the value of the bond.

Capital reserves The capital reserves of LANXESS AG are unchanged from the previous year at €806,195,490.

Other reserves The other reserves principally comprise retained earnings. After offsetting the previous year's net income, recognition of the impact of actuarial gains and losses, the effects from the inclusion of the asset ceiling and the effects of the minimum funding requirement in other comprehensive income, retained earnings amounted to €660 million in 2009 (2008: €604 million). Retained earnings as of January 1, 2008 were €543 million.

Non-controlling interests Non-controlling interests comprise the interests held by other stockholders in the equity of DuBay Polymer GmbH, Hamm, Germany; EUROPIGMENTS S.L., Barcelona, Spain; and Rhein Chemie (Qingdao) Co. Ltd., Qingdao, China.

Capital management The main purpose of capital management in the LANXESS Group is to maintain the long-term viability of the Group's operations and achieve an attractive return on sales and capital compared with the chemical industry average. LANXESS's financial policy defines a second key criterion for capital management, which is to maintain an investment-grade rating. To achieve this goal, the Group has to meet indicators set by the rating agencies. Most of these are derived from statement of financial position, income statement and cash flow data. Capital management in the LANXESS Group entails decisions by the relevant internal bodies on the capital structure shown on the statement of financial position, the appropriateness of the company's equity, the distribution of the profit, the amount of the dividend, the financing of capital expenditures and borrowing and the repayment of debt. The Articles of Incorporation of LANXESS AG do not contain any specific capital requirements.

12 Provisions for pension and other post-employment benefit obligations Most employees in the LANXESS Group are entitled to retirement benefits on the basis of statutory regulations or contractual agreements. These are provided through both defined-contribution and defined-benefit plans.

In the case of defined-contribution plans, the company pays contributions into separate pension funds. These contributions are included in the respective functional cost items as expenses for the year, and thus in the operating result. Once the contributions have been paid, the company has no further payment obligations. In 2009 these expenses totaled €33 million (2008: €28 million).

The pension plan financed through the Bayer Pensionskasse is also reflected in the annual financial statements as a defined-contribution plan. The above amounts include contributions of €20 million (2008: €14 million) to this pension fund.

The Bayer Pensionskasse is a legally independent private insurance company and is therefore subject to the German Insurance Supervision Act. The obligation of the plan sponsors is not confined to payment of the contributions for the respective fiscal year. Therefore the Bayer Pensionskasse is a defined-benefit plan sponsored by multiple employers and would normally have to be accounted for proportionately as a defined-benefit plan.

The Bayer Pensionskasse is financed not on the principle of coverage for individual benefit entitlements, but on the actuarial equivalence principle, based on totals for the whole plan. This means that the sum of existing plan assets and the present value

of future contributions must be at least equal to the present value of the future benefits payable under the plan. The LANXESS Group is therefore exposed to the actuarial risks of the other plan sponsors of the Bayer Pensionskasse and thus has no consistent or reliable basis for allocating the benefit obligation, plan assets and costs to account for the Bayer Pensionskasse as a defined-benefit plan in accordance with IAS 19. Accordingly, the Bayer Pensionskasse is accounted for as a defined-contribution plan and not as a defined-benefit plan.

The Bayer Pensionskasse assumes any pension adjustments in accordance with Section 16 of the German Occupational Pensions Improvement Act (BetrAVG) insofar as the necessary funds are made available to it. Pension adjustments that are not assumed by the Bayer Pensionskasse are accounted for by LANXESS as a separate defined-benefit plan.

Pension plans based on statutory regulations mainly comprise an obligation to pay a lump sum when employment ends. The amount depends principally on years of service and final salary.

Pension plans based on contractual agreements generally comprise lifelong benefits payable in the event of death or disability or when the employee reaches a certain age. Benefits are normally based on remuneration and years of service.

Alongside retirement benefits, pension and other post-employment benefit obligations include the obligation of Group companies in the Americas to reimburse healthcare costs to retirees.

Benefit entitlements are financed either internally through provisions or externally through legally independent pension funds. The pension commitments in Germany are partly covered by the LANXESS Pension Trust e.V.

The provisions for pensions and other post-employment benefits recognized in the statement of financial position reflect the present value of the defined-benefit obligation at year end, taking into account expected future benefit increases, less the year-end fair value of external plan assets adjusted for unrecognized past service cost and unrealizable plan assets. The defined-benefit obligation is measured regularly – at least every three years – by an independent actuary using the projected unit credit method. Comprehensive actuarial valuations are undertaken annually for all major pension plans. The discount rates used to compute present value normally correspond to the yields on high-quality corporate bonds with the same maturities.

A change has been made in the accounting treatment of provisions for pension and other post-employment benefit obligations to improve the transparency of financial reporting. Actuarial gains and losses in the LANXESS Group are no longer accounted for under the 10% corridor rule as in the previous year, but recognized in full outside profit or loss as a component of other comprehensive income in accordance with IAS 19.93A. The LANXESS Group also applied the interpretation IFRIC 14 for the first time in 2009. This concerns the asset ceiling and the minimum funding requirements for defined-benefit pension plans.

The prior-year amounts shown below have been restated to reflect the change in the accounting method. Differences compared with the corridor method used in the previous year are explained.

Total expenses for defined-benefit plans in 2009 amounted to €35 million (2008: €43 million). With the exception of interest cost and the expected return on plan assets, these expenses are recognized in the operating result.

The costs for the plans comprise the following:

Costs for Defined-Benefit Plans

€ million	Pension obligations		Other post-employment benefit obligations	
	2008	**2009**	**2008**	**2009**
Current service cost	20	16	9	10
Past service cost	0	0	0	0
Interest cost	64	80	7	7
Expected return on plan assets	(56)	(66)	0	0
Plan curtailments and settlements	1	0	(2)	(12)
	29	**30**	**14**	**5**

Expenses for defined-benefit plans in 2008, calculated using the corridor method, were €44 million. Following the switch to the new accounting method, the actuarial losses (€3 million) included in expenses according to the corridor method and the ceiling on plan assets (€12 million) are now included in other comprehensive income. This led to a reduction in the expenses for pension plans. For the other benefit obligations, the change did not result in any difference from the corridor method used in 2008.

The reconciliation of the defined-benefit obligation to the net amounts of assets and provisions recognized in the statement of financial position is as follows:

Reconciliation to Net Recognized Liability

€ million	Pension obligations Pension obligations			Other post-employment benefit obligations Other post-employment benefit obligations		
	Jan. 1, 2008	**Dec. 31, 2008**	**Dec. 31, 2009**	**Jan. 1, 2008**	**Dec. 31, 2008**	**Dec. 31, 2009**
Defined benefit obligation (funded)	793	859	1,037	5	5	6
External plan assets	(488)	(665)	(876)	(3)	(3)	(3)
Underfunding	**305**	**194**	**161**	**2**	**2**	**3**
Defined benefit obligation (unfunded)	45	76	80	124	109	108
Unrecognized past service cost	0	0	(1)	1	1	(1)
Effects of asset ceiling and minimum funding requirements	49	69	151	0	0	0
Net recognized liability	**399**	**339**	**391**	**127**	**112**	**110**
Amounts shown in the balance sheet						
Other non-current assets	(9)	(47)	(68)	0	0	0
Provisions for pensions and other post-employment benefits	408	386	459	127	112	110
Net recognized liability	**399**	**339**	**391**	**127**	**112**	**110**

The net recognized liability for pension plans, calculated using the corridor method, was €256 million as of December 31, 2008. The increase in the net recognized liability following the switch to the new accounting method resulted from the inclusion of previously unrealized actuarial losses (€57 million) and the first-time application of IFRIC 14 (€26 million). Both items are included in other comprehensive income. The net recognized liability for other benefit obligations increased by €1 million due to the inclusion of unrealized actuarial losses.

The net recognized liability is reflected in the following items in the statement of financial position:

Net Recognized Liability

€ million	**Jan. 1, 2008**	**Dec. 31, 2008**	**Dec. 31, 2009**
Provisions for pensions and other - post-employment benefits	535	498	569
Other non-current assets	(9)	(47)	(68)
Net recognized liability	**526**	**451**	**501**

According to the corridor method, the provisions for pension and other post-employment benefit obligations and the receivables relating to pension obligations reflected in other non-current assets as of December 31, 2008 were €483 million and €116 million

respectively.

The defined-benefit obligation and plan assets changed as follows in 2009:

Change in Defined-Benefit Obligation as of Dec. 31

€ million	Pension obligations		Other post-employment benefit obligations	
	2008	**2009**	**2008**	**2009**
Defined benefit obligation				
Benefit obligation at beginning of year	838	935	129	114
Current service cost	20	16	9	10
Interest cost	64	80	7	7
Employee contributions	2	2	–	–
Plan changes	0	1	0	0
Plan settlements	4	0	0	0
Actuarial gains/losses	(64)	45	(6)	8
Benefits paid	(42)	(56)	(17)	(18)
Acquisitions/divestments	202	0	0	0
Plan curtailments	4	0	(3)	(12)
Exchange differences	(93)	94	(5)	5
Benefit obligation at end of year	**935**	**1,117**	**114**	**114**

Change in Plan Assets as of Dec. 31

€ million	Pension obligations		Other post-employment benefit obligations	
	2008	**2009**	**2008**	**2009**
Fair value of plan assets				
Plan assets at beginning of year	488	665	3	3
Expected return on plan assets	56	66	0	0
Actuarial gains/losses	(50)	15	0	0
Acquisitions/divestments	295	0	0	0
Plan settlements	8	0	–	–
Employer contributions	13	44	0	0
Employee contributions	2	2	–	–
Benefits paid	(31)	(43)	0	0
Exchange differences	(116)	127	0	0
Plan assets at end of year	**665**	**876**	**3**	**3**

The following table shows the actuarial gains and losses recognized outside profit or loss as a component of other comprehensive income in fiscal 2009 and the effects of the asset ceiling and the minimum funding requirements, recognized in other comprehensive income:

Amounts Recognized in Other Comprehensive Income

€ million	Pension obligations		Other post-employment benefit obligations	
	2008	**2009**	**2008**	**2009**
Actuarial gains/losses	14	(30)	6	(8)
Effects of asset ceiling and minimum funding requirements	4	(59)	0	0
	18	**(89)**	**6**	**(8)**

The accumulated actuarial gains and losses recognized in other comprehensive income at year end 2009 amounted to minus €105 million (2008: minus €61 million).

The actuarial gains and losses computed in fiscal 2009 relate to changes in actuarial assumptions and experience adjustments. The actuarial gains and losses are assigned to the following categories:

Categories of Actuarial Gains/Losses as of Dec. 31

€ million	Pension obligations					Other post-employment benefit obligations				
	2005	**2006**	**2007**	**2008**	**2009**	**2005**	**2006**	**2007**	**2008**	**2009**
Difference between expected and actual return on plan assets	17	16	1	(50)	15	0	0	0	0	0
Experience adjustment	4	11	(23)	(26)	36	12	3	(3)	0	(2)
Adjustment for changes in valuation assumptions	(100)	8	95	90	(81)	(7)	1	7	6	(6)
Net actuarial gain/loss for the year	**(79)**	**35**	**73**	**14**	**(30)**	**5**	**4**	**4**	**6**	**(8)**

The actual return on plan assets was €81 million in 2009 (2008: €6 million).

The following weighted parameters were used to define the benefit costs and liability:

Assumptions as of Dec. 31

in %	Pension obligations		Other post-employment benefit obligations	
	2008	**2009**	**2008**	**2009**
Discount rate	8.0	7.3	7.2	6.7
Expected salary increases	4.2	4.0	2.5	3.9
Expected pension increases	2.3	2.1	–	–
Expected return on plan assets	8.8	9.3	4.7	4.9
Expected increase in the cost of medical care	–	–	9.3	9.0
Expected long-term increase in the cost of medical care	–	–	5.2	5.5

The Heubeck mortality tables 2005 G form the biometric basis for the computation of pension obligations in Germany. Current national biometric assumptions are used to compute benefit obligations at other Group companies. Employee turnover rates are estimated on the basis of age and gender.

The discount rate used to calculate the present value of pension and other post-employment benefit obligations is derived from the yield on high-quality corporate bonds with the same maturity. An increase of 0.5 percentage point in the discount rate would reduce pension obligations by €72 million and other post-employment benefit obligations by €5 million. A reduction of 0.5 percentage point in the discount rate would have largely the opposite effect.

The long-term cost increase for medical care is expected to take place within about five years.
Assuming all other parameters remain unchanged, a one percentage point increase or decrease in the assumptions relating to the expected long-term increase in medical costs would raise or reduce the present value of the defined-benefit obligation by €5 million. The costs for healthcare plans would not materially increase or decrease.

The plan assets now comprise:

Allocation of Plan Assets

in % of plan assets	Dec. 31, 2008	Dec. 31, 2009
Equity instruments	24.9	24.3
Fixed-income securities	66.4	65.3
Real estate	1.8	2.2
Other	6.9	8.2
	100.0	**100.0**

The high proportion of fixed-income securities is due to a risk-averse investment strategy for plan assets.

The expected return on each category of plan assets was calculated on the basis of generally available and internal capital market reports and forecasts. The expected return on fixed-income securities is based on the maturity of the portfolio and the yields on the closing date. The expected return on equity instruments reflects the long-term return expectations for the underlying equity portfolio.

The table below shows the defined-benefit obligation and plan assets at the end of each year:

Funded Status as of Dec. 31

€ million	2005	2006	2007	2008	2009
Defined benefit obligation	1,073	1,022	967	1,049	1,231
External plan assets	(396)	(396)	(491)	(668)	(879)
Underfunding	**677**	**626**	**476**	**381**	**352**

13 Other non-current and current provisions These comprise:

Other Provisions

€ million	Dec. 31, 2008				Dec. 31, 2009			
	Up to 1 year	1– 5 years	Over 5 years	Total	Up to 1 year	1– 5 years	Over 5 years	Total
Personnel	144	53	43	240	78	47	37	162
Transactions with customers	103	0	0	103	105	4	0	109
Environmental protection	24	23	56	103	32	22	53	107
Restructuring	49	36	9	94	37	41	10	88
Miscellaneous	75	37	4	116	100	80	13	193
	395	**149**	**112**	**656**	**352**	**194**	**113**	**659**

Provisions changed as follows in 2009:

Changes in Provisions in 2009

€ million	Jan. 1, 2009	Allocations	Interest effect	Utilization	Reversals	Exchange differences	Dec. 31, 2009
Personnel	240	86	8	(144)	(30)	2	162
Transactions with customers	103	80	0	(61)	(15)	2	109
Environmental protection	103	10	(2)	(13)	0	9	107
Restructuring	94	41	0	(43)	(5)	1	88
Miscellaneous	116	115	3	(35)	(19)	13	193
	656	**332**	**9**	**(296)**	**(69)**	**27**	**659**

Personnel-related provisions – Multi-year compensation programs

Long-Term Incentive Program (LTIP) LANXESS AG offers a long-term incentive program to members of the Board of Management and certain other managers. This program provides for cash settlement. The last of the rights under the LTIP program launched in 2005 were granted in 2007. A new program was introduced in 2008, again comprising three tranches. The date of issue of the rights granted and still outstanding is February 1 each year. Participation in the LTIP is conditional upon each manager making a personal investment in LANXESS stock, depending on his/her base salary. Under the previous program such shares had to be held until January 31, 2010 while under the new program they must be held until February 1, 2013.

Whereas the previous program comprised a share-based component (Stock Performance Plan 2005-2007) and a non-share-based component (Economic Value Plan), the new program is entirely share-based (Stock Performance Plan 2008-2010).

Stock Performance Plan Awards under the Stock Performance Plan are based on the performance of LANXESS stock relative

to the Dow Jones STOXX 600 Chemicals℠ Index.

Stock Performance Plan 2005-2007 If LANXESS stock performs in line with this index, a payment of €0.75 per right will be made. For each percentage point by which the stock outperforms the index, €0.025 will be paid in addition. The additional payment per percentage point above 10% is €0.05, up to a maximum possible payment of €1.50 per right. Members of the Board of Management are only entitled to payments if LANXESS stock outperforms the benchmark index.

Members of the Board of Management and senior managers were entitled to take part in the Stock Performance Plan 2005-2007. Eligibility for this plan was contingent upon participation in the Economic Value Plan described below.

Stock Performance Plan 2008-2010 If LANXESS stock outperforms the index, a payment of at least €0.75 per right will be made. For each percentage point by which the stock outperforms the index, €0.05 will be paid in addition, or €0.06667 if the percentage outperformance is 5% or above. The maximum possible payment is €2.00 per right.

Members of the Board of Management and senior managers are entitled to take part in the Stock Performance Plan 2008-2010.

Obligations arising from the Stock Performance Plan are valued on the basis of the following principal parameters:

Parameters

in %	2008	2009
Expected share price volatility	40.0	50.0
Expected dividend payment	2.0	2.0
Expected index volatility	24.0	29.0
Correlation between LANXESS stock and the index	67.0	70.0
Risk-free interest rate	2.0	1.5

The expected volatilities are based on the historical volatility of LANXESS stock and the Dow Jones STOXX 600 Chemicals℠ Index.

The following table provides information on the tranches outstanding as of December 31, 2009:

Stock Performance Plan

	Tranche 2006	Tranche 2007	Tranche 2008	**Tranche 2009**
Duration	5 years	5 years	6 years	6 years
Retention period	3 years	3 years	3 years	3 years
Initial LANXESS share price	€26.03	€40.79	€24.03	€12.86
Initial Dow Jones STOXX 600 Chemicals[SM] index price	348.60 points	431.50 points	465.97 points	317.39 points
Fair value per right as of December 31, 2009	€0.23	€0.12	€0.82	€1.08
Change in number of outstanding rights				
Outstanding rights as of January 1, 2009	2,812,582	3,326,386	11,453,318	0
Rights granted	–	–	–	12,406,822
Rights lapsed or forfeited	(27,430)	(27,431)	(375,378)	(100,488)
Outstanding rights as of December 31, 2009	**2,785,152**	**3,298,955**	**11,077,940**	**12,306,334**

LANXESS shares were trading at €26.34 at year end 2009 and the reference index was at 463.06 points. No rights were exercised in 2009.

The fair value of the rights is reflected in a pro-rata provision over the retention period. This resulted in net expense of €9 million in 2009 (2008: €0 million). As of December 31, 2009 this provision totaled €10 million (2008: €1 million).

Economic Value Plan Awards under the Economic Value Plan depend on the development of the economic value of the LANXESS Group. If the Group's performance is in line with the medium-term operational plan, a 100% award is made under the program.

Members of the Board of Management, senior managers and some other managers are eligible to participate in the Economic Value Plan.

As of December 31, 2009 the provision for the Economic Value Plan totaled €9 million (2008: €15 million). The value of economic value rights was determined on the basis of the expected target attainment.

LANXESS stock plan This is an employee stock plan under which junior managers and non-managerial staff may purchase shares in the company at a 50% discount. Employees acquired a total of 175,299 LANXESS shares under this program in the previous year. These shares must be retained for at least three years. Since there are no further conditions attached to this stock plan, the effect resulting from the discount was expensed immediately. The expense recognized for the stock plan in 2008 was €2 million.

Trade-related commitments Provisions for trade-related commitments mainly comprise those made for rebates, impending losses and onerous contracts.

Provisions for restructuring Of the allocations made to restructuring provisions in 2008, €43 million was utilized in 2009. €41 million was allocated to provisions for further restructuring programs during the year.

Provisions for restructuring totaled €88 million (2008: €94 million) on December 31, 2009. Of this amount, €64 million (2008: €71 million) comprised provisions for severance payments and other personnel expenses and €24 million (2008: €23 million) comprised provisions for demolition and other expenses.

Environmental provisions The Group's activities are subject to extensive laws and regulations in the jurisdictions in which it does business and maintains properties. Compliance with environmental laws and regulations may require LANXESS to remove or mitigate the effects of the disposal or release of chemical substances at various sites. Under some of these laws and regulations, a current or previous owner or operator of property may be held liable for the costs of removal or remediation of hazardous substances on, under, or in its property, without regard to whether the owner or operator knew of, or caused the presence of the contaminants, and regardless of whether the practices that resulted in the contamination were legal at the time they occurred. As many of the production sites have a long history of industrial use, it is impossible to predict precisely what effect these laws and regulations will have on the LANXESS Group in the future.

As with other companies in the chemical and related industries, soil or groundwater contamination has occurred in the past at certain sites, and the possibility exists that such contamination could occur or be discovered at other sites. Group companies may be subject to claims brought by national or local regulatory agencies, private organizations or individuals regarding the remediation of sites or areas of land that the LANXESS Group has acquired from the Bayer Group, where materials were produced specifically for third parties under contract manufacturing agreements or where waste from production facilities operated by the LANXESS Group was treated, stored or disposed of.

For instance, a potential liability exists under the U.S. Federal Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as "Superfund," the U.S. Resource Conservation and Recovery Act and related state laws for investigation and remediation costs at a number of sites. At most of the U.S. sites concerned, numerous companies, including the LANXESS Group, have been notified that the U.S. Environmental Protection Agency, state authorities or private individuals consider such companies to be potentially responsible parties under Superfund or related laws. At other sites in the United States, the LANXESS Group is the sole responsible party. The proceedings relating to these sites are in various stages. Remediation measures have already been initiated at most of the sites concerned.

The existing provisions for environmental remediation costs relate primarily to the rehabilitation of contaminated sites, recultivation of landfills, and redevelopment and water protection measures. The provisions for environmental remediation costs are stated at the present value of the expected commitments where environmental assessments or clean-ups are probable, the costs can be reasonably estimated and no future economic benefit is expected to arise from these measures. Costs are estimated based on significant factors such as previous experience in similar cases, environmental assessments, current cost levels and new circumstances affecting costs, our understanding of current environmental laws and regulations, the number of other potentially responsible parties at each site and the identity and financial position of such parties in light of the joint and several nature of the liability, and the remediation methods likely to be employed.

It is difficult to estimate the future costs of environmental protection and remediation because of many uncertainties relating to the status of laws, regulations and the information available about conditions in the various countries and at the individual sites. Subject to these factors and in the light of the experience it has gained to date regarding environmental matters of a similar nature, LANXESS believes the provisions to be adequate based upon currently available information. However, given the difficulties inherent in estimating liabilities in this area, the possibility that additional costs could be incurred beyond the amounts accrued cannot be excluded. It is nevertheless assumed that any additional costs would not materially impact the Group's financial position or results of operations.

Legal risks The LANXESS Group is involved in numerous legal disputes either directly, or indirectly through reimbursement obligations to companies in the Bayer Group under agreements made in connection with the spin-off of the LANXESS Group from Bayer. As an international chemicals group, LANXESS is exposed to administrative or court proceedings in the normal course of business and may be again in the future.

Administrative and court proceedings generally involve complex technical and/or legal issues and are therefore subject to a

number of imponderables. The outcomes of any current or future proceedings cannot be predicted with certainty. It is therefore possible that legal judgments could give rise to expenses that are not covered, or not fully covered, by insurance and that could materially affect the business operations, revenues, earnings and cash flows of the LANXESS Group.

14 Other non-current financial liabilities The other non-current financial liabilities comprise:

Other Non-Current Financial Liabilities

€ million	Dec. 31, 2008	Dec. 31, 2009
Bonds	498	1,094
Liabilities to banks	427	281
Liabilities under leasing agreements	56	85
Other financial liabilities	5	2
	986	**1,462**

On June 21, 2005 the LANXESS Group placed a Euro Benchmark Bond on the European capital market. This €500 million bond has an annual coupon of 4.125% and a maturity of seven years. At the start of April 2009 the LANXESS Group placed a further Euro Benchmark Bond on the European capital market. This €500 million bond has an annual coupon of 7.75 % and a maturity of five years. At the start of September 2009 the LANXESS Group placed another Euro Benchmark Bond on the European capital market. This €200 million bond has an annual coupon of 5.5% and matures in September 2016. The proceeds were used to redeem €92 million of the bond issued in 2005 and for premature repayment of a bank loan. It is the main reason for the reduction in non-current liabilities to banks.

The maturity structure of the other non-current financial liabilities is as follows:

Maturity Structure of Other Non-Current Financial Liabilities

€ million	Dec. 31, 2008	Dec. 31, 2009
1–2 years	22	34
2–3 years	312	504
3–4 years	531	128
4–5 years	48	519
More than 5 years	73	277
	986	**1,462**

The weighted average interest rate for financial liabilities in the LANXESS Group was 5.4% (2008: 4.6%).

Information on the fair or market values of financial liabilities is given in Note [31].

Liabilities under lease agreements are recognized if the leased assets are capitalized under property, plant and equipment as the economic property of the Group (finance leases). They are stated at present values. Lease payments totaling €120 million (2008: €73 million), including €24 million (2008: €11 million) in interest, are to be made to lessors in future years.

The liabilities under lease agreements, which are included in other financial liabilities, are due as follows:

Leasing Liabilities

€ million	Dec. 31, 2008		
	Lease payments	Interest portion	Leasing liabilities
Up to 1 year	9	3	6
1 to 2 years	9	2	7
2 to 3 years	8	2	6
3 to 4 years	23	2	21
4 to 5 years	14	1	13
More than 5 years	10	1	9
	73	**11**	**62**

Leasing Liabilities

€ million	Dec. 31, 2009		
	Lease payments	Interest portion	Leasing liabilities
Up to 1 year	15	4	11
1 to 2 years	14	4	10
2 to 3 years	13	4	9
3 to 4 years	35	3	32
4 to 5 years	8	2	6
More than 5 years	35	7	28
	120	**24**	**96**

Lease payments under operating leases amounted to €13 million in 2009 (2008: €9 million).

15 Other liabilities The other non-current liabilities include total asset subsidies of €67 million (2008: €39 million) granted by third parties.

Other current liabilities are recognized at settlement cost. They comprise:

Other Current Liabilities

€ million	Dec. 31, 2008	Dec. 31, 2009
Tax liabilities	34	32
Social security liabilities	18	16
Payroll liabilities	21	15
Miscellaneous liabilities	89	46
	162	**109**

Tax liabilities include not only Group companies' own tax liabilities, but also taxes withheld for payment to the authorities on behalf of third parties.

Liabilities for social expenses include, in particular, social insurance contributions that had not been paid by the closing date.

The miscellaneous liabilities include guarantees, commission payments to customers and reimbursements of expenses. As in the previous year, there were no such liabilities to other affiliated companies.

16 Trade payables Trade accounts are payable mainly to third parties. As in the previous year, the entire amount totaling €486 million (2008: €484 million) is due within one year.

Trade payables of €40 million (2008: €59 million) related to other affiliated companies and €446 million (2008: €425 million) to other suppliers.

17 Other current financial liabilities

Other Current Financial Liabilities

€ million	Dec. 31, 2008	Dec. 31, 2009
Liabilities to banks	137	36
Liabilities under leasing agreements	6	11
Other primary financial liabilities	25	47
	168	**94**

Other primary financial liabilities include accrued interest of €47 million (2008: €14 million) on financial liabilities. €40 million (2008: €11 million) of this amount relates to the above-mentioned Euro Benchmark Bond. A further €5 million relates to promissory notes.

18 Further information on liabilities €279 million (2008: €73 million) of total liabilities had maturities of more than five years.

NOTES TO THE INCOME STATEMENT

19 Sales Sales of €5,057 million (2008: €6,576 million) comprise principally goods sold less discounts and rebates. Sales are deemed to have been realized as soon as delivery has been effected or the service has been rendered. This is normally the case when the significant risks and benefits associated with ownership of the goods pass to the purchaser. In addition, it must be sufficiently certain that the economic benefits will be obtained and it must be possible to determine the costs reliably.

A breakdown of sales and the change in sales by segment and region is given in the segment information (see Note [33]).

20 Other operating income

€ million	2008	2009
Income from non-core business	241	132
Gains from the sale of non-current assets	16	19
Income from the reversal of provisions	32	15
Income from reversals of write-downs of receivables and other assets	8	15
Income from hedging with derivative financial instruments	50	0
Miscellaneous operating income	57	56
	404	**237**

21 Other operating expenses

€ million	2008	2009
Expenses for non-core business	232	119
Expenses for allocations to restructuring provisions	69	41
Expenses for hedging with derivative financial instruments	1	10
Write-downs of trade receivables and other current assets	29	9
Losses from the disposal of non-current assets	1	1
Miscellaneous operating expenses	185	143
	517	**323**

The miscellaneous operating expenses include expenses relating to restructuring.

22 Financial result

The components of this item are as follows:

Financial Result

€ million	2008	2009
Income from investments accounted for using the equity method	**21**	**8**
Interest income	19	17
Interest expense	(55)	(90)
Net interest expense	**(36)**	**(73)**
Dividends and income from other affiliated companies	1	1
Interest portion of interest-bearing provisions	(18)	(30)
Net exchange loss	(10)	(2)
Miscellaneous financial expenses	(35)	(21)
Other financial income/expense – net	**(62)**	**(52)**
Financial result	**(77)**	**(117)**

Interest expense mainly includes payments of bond interest. In compliance with IAS 17, the interest portion of the lease payments under finance leases amounting to €3 million (2008: €3 million) is included in interest expense. Income from investments accounted for using the equity method comprises the €8 million (2008: €21 million) share in the income of CURRENTA GmbH & Co. OHG, Leverkusen, Germany, that is attributable to LANXESS.

23 Income taxes

This item comprises the income taxes paid or accrued in the individual countries, plus deferred taxes. Income taxes are computed on the basis of local tax rates.

The breakdown of income taxes by origin is as follows:

Income Taxes by Origin

€ million	2008	2009
Current taxes	(99)	(3)
Deferred taxes resulting from		
temporary differences	61	(41)
statutory changes in tax rates	0	(1)
loss carryforwards	(25)	52
Income taxes	**(63)**	**7**

The deferred tax assets and liabilities are allocable to the various items of the statement of financial position as follows:

Deferred Taxes

€ million	Jan. 1, 2008		Dec. 31, 2008		Dec. 31, 2009	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	11	1	28	8	16	6
Property, plant and equipment	12	120	10	141	6	140
Inventories	5	5	31	4	16	2
Receivables and other assets	15	36	29	46	44	72
Pension provisions	36	29	41	30	40	13
Other provisions	57	0	87	2	95	3
Liabilities	69	1	86	0	55	2
Loss carryforwards	61	–	32	–	91	–
	266	**192**	**344**	**231**	**363**	**238**
of which non-current	120	150	111	179	153	182
Set-off	(152)	(152)	(190)	(190)	(200)	(200)
	114	**40**	**154**	**41**	**163**	**38**

The change in deferred taxes is calculated as follows:

Changes in Deferred Taxes

€ million	2008	2009
Deferred taxes as of January 1	**74**	**113**
Tax income reflected in the income statement	36	10
Changes in scope of consolidation	(23)	(5)
Taxes recognized in equity	20	1
Exchange differences	6	6
Deferred taxes as of December 31	**113**	**125**

Other comprehensive income – before and after income taxes – was as follows:

Income Taxes on Other Comprehensive Income

€ million	2008		
	Other comprehensive income before income taxes	Income taxes attributable to other comprehensive income	Other comprehensive income after income taxes
Actuarial gains/losses, effects of the asset ceiling and minimum funding requirements relating to defined-benefit plans	45	(13)	32
Exchange differences on translation of operations outside the euro zone	(117)	0	(117)
Financial instruments	(123)	33	(90)
Other comprehensive income	**(195)**	**20**	**(175)**

Income Taxes on Other Comprehensive Income

€ million	2009		
	Other comprehensive income before income taxes	Income taxes attributable to other comprehensive income	Other comprehensive income after income taxes
Actuarial gains/losses, effects of the asset ceiling and minimum funding requirements relating to defined-benefit plans	(114)	29	(85)
Exchange differences on translation of operations outside the euro zone	125	0	125
Financial instruments	97	(28)	69
Other comprehensive income	**108**	**1**	**109**

Deferred tax assets of €128 million (2008: €45 million) related to tax jurisdictions in which losses were recorded in 2009 or 2008. In this respect, the LANXESS Group has taken into consideration tax planning calculations and customary and feasible tax strategies.

Deferred tax assets of €91 million (2008: €32 million) were recognized on the €294 million (2008: €110 million) in tax loss carryforwards that represent income likely to be realized in the future.

Deferred taxes were not recognized for €192 million (2008: €136 million) of tax loss carryforwards that theoretically can be utilized over more than five years. Deferred tax assets also were not recognized in 2009 for tax-deductible temporary differences of €27 million (2008: €29 million).

The actual tax income for 2009 was €7 million (2008: tax expense of €63 million). This figured differed by €17 million (2008: €13 million) from the expected tax expense of €10 million (2008: €76 million).

The expected tax expense for the LANXESS Group is calculated by applying an overall tax rate of 31.2% (2008: 31.2%) for the German companies. This comprises a corporation tax rate of 15.0%, plus a solidarity surcharge (5.5% of corporation tax) and trade tax.

The reconciliation of the expected tax result to the actual tax result is as follows:

Reconciliation to Reported Tax Income

€ million	2008	2009
Income before income taxes	246	32
Aggregated income tax rate of LANXESS AG	31.2%	31.2%
Expected tax expense	(76)	(10)
Tax difference due to differences between local tax rates and the hypothetical tax rate	23	18
Reduction in taxes due to tax-free income		
Utilization of unrecognized loss carryforwards	0	5
Other	11	7
Increase in taxes due to non-tax-deductible expenses	(9)	(10)
Other tax effects	(12)	(3)
Actual tax income (expense)	**(63)**	**7**
Effective tax rate	25.6%	(21.9%)

24 Earnings per share The calculation of earnings per share for 2009 was based on 83,202,670 outstanding shares. Since there are currently no equity instruments in issue that could dilute earnings per share, basic and diluted earnings per share are identical. Further information on equity instruments that could dilute earnings per share in the future is contained in Note [11].

Earnings per Share

	2008	2009	Change in %
Net income (€ million)	183	40	(78.1)
No. of outstanding shares (weighted)	83,202,670	83,202,670	0.0

Earnings per share in € (undiluted/diluted)	2.20	0.48	(78.1)

The change in accounting for pensions and other post-employment benefits increased the income after income taxes originally reported for 2008, which equaled net income, by €12 million to €183 million. The earnings per share originally reported for the same period increased accordingly by €0.15 to €2.20.

LANXESS AG reported a distributable profit of €106 million for fiscal 2009 (2008: €97 million).

25 Cost of materials The cost of materials was €3.0 billion (2008: €4.0 billion), comprising purchased materials adjusted for changes in inventories, and expenses for purchased energy and fuels.

26 Personnel expenses Personnel expenses amounted to €981 million in fiscal 2009 (2008: €1,062 million). They mainly comprised wages and salaries totaling €770 million (2008: €832 million). Social security contributions totaled €162 million (2008: €166 million), pension expenses amounted to €45 million (2008: €60 million) and benevolent expenses came to €4 million (2008: €4 million). Personnel expenses do not include the interest portion of personnel-related provisions, especially pension provisions, which is reflected in the financial result (see Note [22]).

OTHER INFORMATION

27 Employees The average number of employees in the LANXESS Group in 2009 was 14,472. The decrease of 396 compared with the previous year was mainly due to the global efficiency improvement programs.

Employees by Function

	2008	2009
Production	10,555	10,343
Marketing	2,178	1,952
Administration	1,694	1,672
Research	441	505
	14,868	**14,472**

28 Contingent liabilities and other financial commitments Contingent liabilities as of December 31, 2009 amounted to €4 million (2008: €5 million). They resulted from guarantees and similar instruments assumed on behalf of third parties. They represent potential future commitments in cases where the occurrence of certain events would create an obligation that was uncertain at the closing date. An obligation to perform under such contingent liabilities arises in the event of delayed settlement or insolvency on the part of the debtor.

As a personally liable partner in CURRENTA GmbH & Co. OHG, Leverkusen, Germany, LANXESS may be required to inject further capital into this company in the future.

Apart from provisions, liabilities and contingent liabilities, financial commitments also exist under leasing and long-term rental agreements.

The minimum non-discounted future payments pertaining to operating leases total €75 million (2008: €70 million). The respective payment obligations mature as follows:

Maturity Structure of Lease and Rental Payments

€ million	Dec. 31, 2008	Dec. 31, 2009
Up to 1 year	10	19
1 to 2 years	9	12
2 to 3 years	8	9
3 to 4 years	8	8
4 to 5 years	8	5
More than 5 years	27	22
	70	**75**

Financial commitments resulting from orders already placed under purchase agreements relating to planned or ongoing capital expenditure projects in the area of property, plant and equipment total €52 million (2008: €64 million). Of the respective payments, €37 million are due in 2010 and €15 million are due in 2011.

Description of the master agreement Under the master agreement that was concluded between Bayer AG and LANXESS AG together with the Spin-Off and Takeover Agreement, Bayer AG and LANXESS AG agreed, among other things, on commitments regarding mutual indemnification for obligations of the respective other party and special arrangements allocating responsibility to deal with claims in the areas of product liability, environmental contamination and antitrust violations. The master agreement also contains arrangements for the allocation of tax effects relating to the spin-off and to the preceding measures to create the subgroup that was subsequently spun off.

Since the statutory joint and several liability of LANXESS for residual liabilities of the Bayer Group was limited to five years, the previous risk exposure no longer exists.

29 Related parties In the course of its operations, the LANXESS Group sources materials, inventories and services from a large number of business partners around the world. These include companies in which LANXESS AG has a direct or indirect interest. Transactions with these companies are carried out on an arm's length basis.

Transactions with companies accounted for in the consolidated financial statements using the equity method and their subsidiaries mainly comprised the purchase of site services in the fields of utilities, infrastructure and logistics totaling €345 million (2008: €453 million). As a result of these transactions, trade payables of €40 million existed as of December 31, 2009 (2008: €59 million).

No material business transactions were undertaken with other associated companies.

30 Compensation of the Board of Management and the Supervisory Board Annual compensation totaling €3,592 thousand (2008: €5,087 thousand) was paid to the members of the Board of Management of LANXESS AG in fiscal 2009. This comprised fixed salaries of €2,250 thousand (2008: €2,303 thousand) and bonus payments of €1,342 thousand (2008: €2,784 thousand).

In addition, the members of the Board of Management received multi-year compensation under the Long Term Incentive Program (LTIP). 2,203,750 share-based compensation rights were granted in 2009 (2008: 2,203,750). The fair value of these rights at the grant date was €1,147 thousand (2008: €1,102 thousand). They also received compensation of €372 thousand (2008: €528 thousand) under the non-share-based Economic Value Plan. This gave rise to expenses of €1,657 thousand (2008: €873 thousand) for multi-year compensation, comprising €1,901 thousand (2008: €43 thousand) for the share-based Stock

Performance Plan and income of €244 thousand (2008: expenses of €830 thousand) for the non-share-based Economic Value Plan. Further details of the components of the LTIP can be found in Note [13].

Details of the compensation system for members of the Board of Management and an individual breakdown of compensation are given in the Compensation Report section of the Group Management Report for fiscal 2009.

Further, in fiscal 2009 service cost of €622 thousand (2008: €698 thousand) relating to defined-benefit pension plans was incurred for members of the Board of Management as part of their compensation package.

Payments of €276 thousand (2008: €117 thousand) were made to former members of the Board of Management. The total obligation for former members of the Board of Management was €6,352 thousand as of December 31, 2009 (2008: €5,384 thousand).

The members of the Supervisory Board received remuneration of €1,171 thousand in 2009 (2008: €1,200 thousand). The provisions established for multi-year remuneration components for Supervisory Board members as of December 31, 2009 – including the interest pertaining to 2009 – amounted to €1,549 million (2008: €1,466 million).

Details of the remuneration system for members of the Supervisory Board and an individual breakdown of the amounts paid are contained in the corporate governance report in the section headed Compensation System of the Supervisory Board.

No loans were granted to members of the Board of Management or the Supervisory Board in fiscal 2009 or 2008.

31 Financial instruments Primary financial instruments are reflected in the statement of financial position. In compliance with IAS 39, asset instruments are categorized as "at fair value through profit or loss," "held to maturity" or "available for sale" and, accordingly, recognized at cost or fair value. Liability instruments that are neither held for trading nor constitute derivatives are carried at amortized cost.

Risks and risk management The global alignment of the LANXESS Group exposes its business operations, earnings and cash flows to a variety of market risks. Material financial risks to the Group as a whole, such as currency, interest-rate, credit, liquidity and commodity price risks, are managed centrally.

These risks could impair the earnings and financial position of the LANXESS Group. The various risk categories and risk management system for the LANXESS Group are outlined below.

The principles of risk management are defined by the Board of Management. At the regular strategy meetings of the Financial Risk Committee, which are chaired by the Chief Financial Officer, reports on the outcome of financial risk management and on current risks levels are presented and any further action is decided upon. Simulations based on a range of worst-case scenarios are used to assess the impact of market trends. The implementation of the Financial Risk Committee's decisions and ongoing risk management are undertaken centrally by the Group Function Treasury. The aim of financial risk management is to identify and evaluate risks and to manage and limit their effects as appropriate.

Currency risks
Since the LANXESS Group undertakes transactions in numerous currencies, it is exposed to the risk of fluctuations in the relative value of these currencies, particularly the U.S. dollar, against the euro.

Currency risks from potential declines in the value of financial instruments due to exchange rate fluctuations (transaction risks) arise mainly when receivables and payables are denominated in a currency other than the company's local currency.

Currency risks relating to operating activities are systematically monitored and analyzed. While the risks relating to changes in the value of receivables and payables denominated in foreign currencies are fully hedged, the scope of hedging for currency risks relating to forecast transactions is subject to regular review. A substantial proportion of contractual and foreseeable currency risks are hedged using derivative financial instruments. Changes in the fair values of these instruments are recognized in the financial result or, in the case of cash flow hedges, in other comprehensive income. Realized income/expense from the effective portion of cash flow hedges are recognized in other operating income/expenses.

Currency risks arising on financial transactions, including interest, are generally fully hedged, mainly through forward exchange contracts.

Since the LANXESS Group concludes derivative contracts for the greater part of its currency risks, it believes that, in the short term, a significant rise or fall in the euro against other major currencies would have no material impact on future cash flows. In the long term, however, these exchange rate fluctuations could adversely affect cash flows should the LANXESS Group not be in a position to absorb them, for example, through the pricing of its products in the respective local currencies.

If the exchange rate for the euro had been 5% higher against all other currencies at year end 2009, this would have had a €21 million (2008: €41 million) effect, mainly on other comprehensive income, which would have improved accordingly. This effect mainly relates to the U.S. dollar. A correspondingly lower rate for the euro would have had basically the opposite effect.

Many companies in the LANXESS Group are based outside the euro zone. Since the Group prepares its consolidated financial statements in euros, the annual financial statements of these subsidiaries are translated into euros for consolidation purposes. Changes in the average exchange rate of a currency from one period to the next can materially affect the translation of both sales and earnings reported in this currency (translation risk). Unlike transaction risk, translation risk has no impact on Group cash flows in the local currency.

The LANXESS Group has material assets, liabilities and businesses outside the euro zone that report in local currencies. The related long-term currency risk is estimated and evaluated on a regular basis. In view of the risks involved in such cases, however, foreign currency hedging transactions are only concluded if consideration is being given to withdrawing from a particular business and it is intended to repatriate the funds released by the withdrawal. However, the effects of exchange rate fluctuations on the translation of net positions into euros are reflected in other comprehensive income.

Interest-rate risks

Fluctuations in market interest rates can cause fluctuations in the overall return on a financial instrument. Interest rate risk affects both financial assets and financial liabilities.

Since the majority of financial liabilities are entered into at fixed interest rates, changes in interest rates in the coming years will only have a limited impact on the LANXESS Group. The available liquidity is invested in instruments with short-term fixed interest rates, so that the LANXESS Group benefits quickly from rising interest rates. A general change of one percentage point in interest rates as of December 31, 2009 would have altered Group net income by around €3 million (2008: €1 million).

Credit risks

Credit risks arise from trade relationships with customers and dealings with banks and other financial partners, especially with regard to the investment business and financial-instrument transactions.

Customer risks are systematically identified, analyzed and managed, using both internal and external information sources. Customer portfolios may be insured against credit risks, especially where the risk profile is elevated. The maximum credit risk is mitigated mainly through letters of credit and credit insurance agreements in favor of the LANXESS Group. Credit risk management was stepped up considerably in fiscal 2008. In view of the persistently difficult economic situation, this policy was continued. Since the start of 2009 most of LANXESS's customer risks have been insured against default by a leading European credit insurer.

Credit risk management also includes global management of the counterparty risk relating to banks and financial partners. The LANXESS Group pays particular attention to risk diversification to prevent any cluster risks that could jeopardize its existence. Through master agreements, the market values of open trading positions can be netted if a partner becomes insolvent, thereby further reducing risks.

Liquidity risks

Liquidity risks arise from potential financial shortfalls and the resulting increase in refinancing costs. The aim of liquidity management in the LANXESS Group is to ensure that the Group has sufficient liquidity and committed credit facilities available at all times to enable it to meet its payment commitments, and to optimize the liquidity balance within the Group.

The €1,408 billion syndicated credit facility, which runs through November 2014 and was unused as of the closing date, is a key component of the LANXESS Group's liquidity management. In addition, the Group has short-term liquidity reserves of €715 million in the form of cash and cash equivalents and highly liquid investments in AAA-rated money market funds. Accordingly, the LANXESS Group has a comfortable liquidity position based on a broad range of financing instruments.

The following table shows the contractually agreed (undiscounted) payment streams, including contractually agreed interest

payments, for primary financial liabilities and derivative financial instruments.

Dec. 31, 2008

€ million	2009	2010	2011	2012	2013	After 2013
Bond	(10)	(21)	(21)	(520)		
Liabilities to banks	(150)	(24)	(316)	(33)	(24)	(74)
Trade payables	(484)					
Liabilities under finance leases	(9)	(9)	(8)	(23)	(14)	(10)
Other primary financial liabilities	(25)	(5)				
Derivative liabilities						
Hedging instruments that qualify for hedge accounting						
Disbursements	(238)	(37)				
Receipts	182	7				
Other hedging instruments						
Disbursements	(284)					
Receipts	260					
Derivative assets						
Hedging instruments that qualify for hedge accounting						
Disbursements	(194)	(256)	(102)			
Receipts	199	269	131			
Other hedging instruments						
Disbursements	(392)					
Receipts	417					

Dec. 31, 2009

€ million	2010	2011	2012	2013	2014	After 2014
Bonds	(26)	(66)	(468)	(50)	(550)	(222)
Liabilities to banks	(41)	(37)	(87)	(104)	(28)	(58)
Trade payables	(486)					
Liabilities under finance leases	(15)	(14)	(13)	(35)	(8)	(35)
Other primary financial liabilities	(48)	(2)				
Derivative liabilities						
Hedging instruments that qualify for hedge accounting						
Disbursements	(12)	(6)				
Receipts	3	2				
Other hedging instruments						
Disbursements	(575)				(10)	
Receipts	553				10	
Derivative assets						
Hedging instruments that qualify for hedge accounting						
Disbursements	(254)	(132)				
Receipts	282	148				
Other hedging instruments						
Disbursements	(193)					
Receipts	194					

The contractually agreed payments for other primary financial liabilities due within one year following the closing date contain accrued interest of €40 million (2008: €11 million) relating to the bonds.

Raw material price risks

The LANXESS Group is exposed to changes in the market prices of commodities used for its business operations. There is a risk that only part of any increases in energy and raw material procurement costs can be passed on to customers and that such increases could therefore materially affect the operating result of the LANXESS Group. These market-price risks are systematically monitored, analyzed and controlled as part of the financial risk management system. The aim is to achieve a deliberate and controlled reduction in the volatility of cash flows and thus the volatility of the company's economic value by making systematic use of derivatives, for example, for natural gas, fuel oil or N-butane. Where cash flow hedges qualify for hedge accounting, changes in their fair values are recognized in other comprehensive income until the hedged transaction is realized.

If all raw material prices had been 10% higher or lower on the closing date, the changes in the fair values of the respective

hedging instruments would have increased or decreased other comprehensive income by €3 million (2008: €4 million).

Derivative financial instruments Derivatives with a total fair value of €45 million (2008: €77 million) are capitalized in the consolidated financial statements of the LANXESS Group for fiscal 2009. Instruments with a negative fair value totaling €30 million (2008: €109 million) are recognized as liabilities.

Derivative Financial Instruments

€ million	Dec. 31, 2008		
	Notional value	Positive fair values	Negative fair values
Forward exchange contracts	1,336	35	(33)
Currency options	504	15	(36)
Cross-currency interest-rate swaps	100	27	0
Forward commodity contracts	105	0	(40)
Total	**2,045**	**77**	**(109)**

Derivative Financial Instruments

€ million	Dec. 31, 2009		
	Notional value	Positive fair values	Negative fair values
Forward exchange contracts	1,228	32	(17)
Currency options	294	5	(10)
Forward commodity contracts	47	8	(3)
Total	**1,569**	**45**	**(30)**

The total notional value of forward commodity contracts was €47 million (2008: €105 million), including €44 million (2008: €79 million) due within one year. The total notional value of forward exchange contracts and currency options was €1,522 million (2008: €1,840 million), including €1,309 million (2008: €1,342 million) due within one year.

Cash flow hedges As of December 31, 2009, the unrealized gains recorded in other comprehensive income in 2009 or earlier periods from **currency hedging contracts** that qualified for hedge accounting amounted to €23 million (2008: losses of €14 million). In fiscal 2009, €7 million (2008: €36 million) was reclassified from equity and recognized in the income statement as a loss (2008: gain) due to the realization of the hedged transactions. Currency hedging contracts had a notional value of €687 million (2008: €1,140 million). As of December 31, 2009, these contracts had positive fair values of €35 million (2008: €24 million) and negative fair values of €10 million (2008: €45 million). Contracts with a total notional amount of €496 million (2008: €642 million) are due within one year. The hedged cash flows will be realized within the next two years.

The LANXESS Group expects that €13 million of the unrealized gains recognized in other comprehensive income in 2009 or earlier periods will be realized in 2010 and that €10 million will be reclassified from equity to profit or loss in 2011. In 2008, it was

expected that unrealized losses of €14 million recognized in other comprehensive income in 2008 or earlier periods would be reclassified from equity to profit or loss in 2009.
In fiscal 2009 hedging contracts concluded in order to hedge currency risks in U.S. dollars and yen were closed out because the underlying transactions were no longer probable. The resulting expense was €2 million.

As part of the restructuring of the refinancing portfolio in 2009, LANXESS withdrew from or prematurely closed out all cross-currency interest-rate swaps it had entered into in 2008.

As of December 31, 2009, the unrealized gains recorded in other comprehensive income in 2009 or earlier periods from **forward commodity contracts** that qualified for hedge accounting amounted to €3 million (2008: losses of €27 million). In fiscal 2009, €18 million was reclassified from equity and recognized in the income statement as a loss (2008: €6 million gain) due to the realization of the hedged transactions. Hedges comprised forward commodity contracts with positive fair values of €8 million on December 31, 2009 (2008: €0 million) and negative fair values of €3 million (2008: €40 million). The total notional value of these hedges was €47 million (2008: €105 million), including €44 million (2008: €79 million) due within one year. The hedged cash flows will be realized within the next two years.

The LANXESS Group expects that unrealized gains of €3 million recognized in other comprehensive income in 2009 or previous years will be reclassified from equity to profit or loss in 2010. In 2008, it was expected that unrealized losses of €22 million recognized in other comprehensive income in 2008 or previous years would be reclassified from equity to profit or loss in 2009 and that €5 million would be reclassified in 2010.

Carrying amounts, measurement and fair value of financial instruments The table shows the carrying amounts of the individual classes of financial assets and liabilities and their fair values. The basis of measurement is also shown:

Dec. 31, 2008

€ million	IAS 39 valuation category	Carrying amount Dec. 31, 2008	Valuation method according to IAS 39				Valuation method according to IAS 17	Fair value Dec. 31, 2008
			Amortized cost	Acquisition cost	Fair value (other comprehensive income)	Fair value (profit or loss)		
Financial assets								
Trade receivables	LaR	725	725					725
Receivables under finance leases	–	12					12	12
Other financial receivables	LaR	120	120					120
Cash and cash equivalents	LaR	249	249					249
Available-for-sale financial assets								
Near-cash assets	AfS	–						–
Other available-for-sale financial asset	AfS	97		2	95			95
Derivative assets								
Hedging instruments that qualify for hedge accounting	–	51			51			51
Other hedging instruments	FAHfT	26				26		26
Financial liabilities								
Bonds	FLAC	(498)	(498)					(487)
Liabilities to banks	FLAC	(564)	(564)					(564)
Trade payables	FLAC	(484)	(484)					(484)
Liabilities under finance leases	–	(62)					(62)	(63)
Other primary financial liabilities	FLAC	(30)	(30)					(30)
Derivative liabilities								
Hedging instruments that qualify for hedge accounting	–	(85)			(85)			(85)
Other hedging instruments	FLHfT	(24)				(24)		(24)

Dec. 31, 2009

€ million	IAS 39 valuation category	Carrying amount Dec. 31, 2009	Valuation method according to IAS 39				Valuation method according to IAS 17	Fair value Dec. 31, 2009
			Amortized cost	Acquisition cost	Fair value (other comprehensive income)	Fair value (profit or loss)		
Financial assets								
Trade receivables	LaR	733	733					733
Receivables under finance leases	–	10					10	10
Other financial receivables	LaR	161	161					161
Cash and cash equivalents	LaR	313	313					313
Available-for-sale financial assets								
Near-cash assets	AfS	402			402			402
Other available-for-sale financial assets	AfS	55		1	54			54
Derivative assets								
Hedging instruments that qualify for hedge accounting	–	43			43			43
Other hedging instruments	FAHfT	2				2		2
Financial liabilities								
Bonds	FLAC	(1,094)	(1,094)					(1,196)
Liabilities to banks	FLAC	(317)	(317)					(317)
Trade payables	FLAC	(486)	(486)					(486)
Liabilities under finance leases	–	(96)					(96)	(105)
Other primary financial liabilities	FLAC	(49)	(49)					(49)
Derivative liabilities								
Hedging instruments that qualify for hedge accounting	–	(13)			(13)			(13)
Other hedging instruments	FLHfT	(17)				(17)		(17)

LaR	Loans and Receivables
AfS	Available-for-Sale Financial Assets
FAHfT	Financial Assets Held for Trading
FLAC	Financial Liabilities Measured at Amortized Cost
FLHfT	Financial Liabilities Held for Trading

Carrying Amounts by IAS 39 Category

€ million	Dec. 31, 2008	Dec. 31, 2009
Loans and receivables	1,094	1,207
Available-for-sale financial assets	97	457
Financial assets held for trading	26	2
	1,217	**1,666**
Financial liabilities measured at amortized cost	(1,576)	(1,946)
Financial liabilities held for trading	(24)	(17)
	(1,600)	**(1,963)**

Fair value measurement Fair value measurement is based on a hierarchy that reflects the significance of inputs in the valuation. This comprises three levels:

Level 1 Quoted prices (unadjusted) for identical assets or liabilities in active markets
Level 2 Inputs other than quoted prices used within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3 Inputs for the asset or liability that are not based on observable market data.

As of December 31, 2009, the classification of financial instruments using the fair value hierarchy was as follows:

Fair Value Measurement Levels

€ million	Level 1	Level 2	Level 3
Available-for-sale financial assets			
Near-cash assets	402	–	–
Other available-for-sale financial assets	53	1	–
Derivative assets	–	45	–
Derivative liabilities	–	30	–

Net result by category The following table provides an overview of the net results based on the measurement categories defined in IAS 39:

Net Results by IAS 39 Category

€ million	2008	2009
Loans and receivables	(4)	12
Available-for-sale financial assets	(46)	0
Assets and liabilities held for trading	2	0
Financial liabilities measured at amortized cost	(46)	(80)
	(94)	**(68)**

Net gains and losses principally comprise interest income and expense, dividend income and valuation adjustments.

The net result for available-for-sale financial assets includes losses of €1 million (2008: €0 million), which are reflected in other comprehensive income.

In addition, fees of €16 million were incurred in 2009 (2008: €4 million) in connection with financial instruments.

Collateralization of financial liabilities Financial liabilities amounting to €34 million (2008: €47 million) were collateralized by mortgages or other property claims.

32 Notes to the Statement of Cash Flows The statement of cash flows shows cash inflows and outflows by type of business activity. For the sake of clarity, €14 million in receipts constituting investment grants for the construction of facilities for major customers that had been reflected in changes in other assets and liabilities in 2008 has been reclassified to investing activities and netted with the cash outflows for purchases of intangible assets, property, plant and equipment.

Effective January 1, 2009 a change was made in the accounting treatment of provisions for pension and other post-employment benefit obligations to improve the transparency of financial reporting. In compliance with IAS 19.93A, actuarial gains and losses are now recognized in full in the period in which they occur. This increased the originally reported 2008 figures for income before income taxes by €17 million, increased the income from investments accounted for using the equity method by €1 million, and reduced cash inflows from changes in other assets and liabilities in 2008 by €16 million.

Net cash flow provided by operating activities The net cash inflow from operating activities in 2009 amounted to €565 million (2008: €492 million). Income before income taxes, which is the starting point for the statement of cash flows, came in at €32 million (2008: €246 million). Other assets and liabilities decreased by €24 million year-on-year (2008: increased by €26 million). Apart from the income before income taxes, net operating cash flow included depreciation, amortization and write-downs of €273 million (2008: €279 million). No income taxes were paid in 2009 (2008: €120 million).

Net cash used in investing activities Purchases of property, plant and equipment and intangible assets led to a cash outflow of €275 million in 2009 (2008: €342 million). A further €448 million was disbursed for financial assets (2008: €35 million), chiefly comprising units of money market funds that can be sold at any time. Cash outflows for the acquisition of subsidiaries – net of acquired cash and cash equivalents – comprised €86 million for the purchase of the business and production facilities of the listed Indian company Gwalior Chemical Industries Ltd., Mumbai, and the Chinese company Jiangsu Polyols Chemical Co. Ltd. (Jiangsu Polyols), Liyang. Proceeds of €7 million (2008: €27 million) were recorded from the divestment of businesses. Further cash inflows comprised interest receipts of €13 million (2008: €14 million) and income of €24 million (2008: €5 million) from other affiliates. This consisted mainly of inflows from the transfer to LANXESS of the pro-rata share of the income of CURRENTA GmbH & Co. OHG, Leverkusen, Germany, which is accounted for using the equity method. Net cash outflow for investing activities was €771 million (2008: €543 million).

Net cash provided by financing activities A net cash inflow of €258 million (2008: €115 million) was recorded for financing activities, including a €353 million (2008: €246 million) inflow from net borrowings, a €53 million (2008: €47 million) outflow for interest paid and other financial disbursements, and a €42 million (2008: €84 million) outflow for the dividend paid by LANXESS AG in 2009.

Cash and cash equivalents Cash and cash equivalents (cash, checks, bank balances) amounted to €313 million as of December 31, 2009 (2008: €249 million). In accordance with IAS 7, this item also includes securities with maturities of up to three months from the date of acquisition.

33 Segment reporting

Key Data by Segment

€ million	Performance Polymers		Advanced Intermediates		Performance Chemicals		Reconciliation		LANXESS	
	2008	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**
External sales	3,280	2,388	1,310	1,104	1,930	1,530	56	35	6,576	5,057
Intersegment sales	26	38	61	38	10	11	(97)	(87)	0	0
Segment/Group sales	3,306	2,426	1,371	1,142	1,940	1,541	(41)	(52)	6,576	5,057
Segment result/EBITDA pre exceptionals	413	250	186	154	241	182	(118)	(121)	722	465
Segment assets	1,931	2,053	676	719	1,078	1,022	144	95	3,829	3,889
Segment acquisitions	259			86	14				273	86
Segment capital expenditures	178	171	76	82	82	80	20	9	356	342
Depreciation and amortization	128	136	44	48	74	65	13	9	259	258
Impairments	11	1			8	6	1	8	20	15
Segment liabilities	653	681	318	360	477	433	398	426	1,846	1,900
Employees (December 31)	4,672	4,375	2,530	2,858	5,021	4,675	2,574	2,430	14,797	14,338
Employees (average for the year)	4,650	4,467	2,541	2,703	5,079	4,851	2,598	2,451	14,868	14,472

2008 figures restated

Key Data by Region

€ million	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific		LANXESS	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
External sales by market	2,201	1,557	1,421	1,063	1,074	781	724	515	1,156	1,141	6,576	5,057
Non-current region assets	370	406	737	750	321	322	270	331	111	220	1,809	2,029
Acquisitions							259		14	86	273	86
Capital expenditures	85	88	164	135	52	40	16	18	39	61	356	342
Employees (December 31)	2,703	2,625	7,772	7,626	1,464	1,261	1,412	1,152	1,446	1,674	14,797	14,338

Notes to the segment reporting The valuation principles applied in segment reporting correspond to the uniform recognition and valuation principles used for the consolidated financial statements prepared in accordance with IFRS.

The segment reporting has been prepared according to IFRS 8 for the first time. The key difference between IFRS 8 and IAS 14, which was applied for the last time in the consolidated financial statements as of December 31, 2008, is that IFRS 8 follows the so-called management approach. This means that the amount reported for each segment item must be the same as that notified to the company's chief operating decision maker (CODM). Since the earnings figure used for management accounting purposes within the LANXESS Group is the operating result before depreciation and amortization (EBITDA) pre exceptionals, this is the amount now disclosed as the "segment result." A reconciliation of EBITDA pre exceptionals to income before taxes is also provided. The aim of segmentation is to provide users of the financial statements with information regarding the profitability and future prospects of the Group's various activities.

On December 31, 2009 the LANXESS Group comprised the following reporting segments:

Segment	Operations
Performance Polymers	Special-purpose rubber for high-quality rubber products, e.g. for use in vehicles, tires, construction and footwear; engineering plastics, polyamide compounds
Advanced Intermediates	Intermediates for the agrochemicals and coatings industries; fine chemicals as precursors and intermediates for pharmaceuticals, agrochemicals and specialty chemicals; custom manufacturing
Performance Chemicals	Material protection products; inorganic pigments for the coloring of concrete, emulsion paints and other coatings; finishing agents for the leather industry; rubber chemicals; ion exchange resins for water treatment; plastics additives such as flame retardants and plasticizers

The reconciliation eliminates intersegment items and reflects assets and liabilities not directly allocable to the core segments including, in particular, those pertaining to the Corporate Center. It also includes the €25 million (2008: €41 million) interest in the associate CURRENTA GmbH & Co. OHG, Leverkusen, and the latter's equity-method income of €8 million (2008: €21 million).

The majority of employees reflected in the reconciliation provide services for more than one segment. They include technical service staff.

The reporting regions are those into which LANXESS's activities are organized: EMEA (Europe excluding Germany, Middle East, Africa), Germany, North America, Latin America and Asia-Pacific. In 2009 the Americas reporting region was subdivided for the first time into North America and Latin America to increase transparency. The previous year's figures were split accordingly.

Segment EBITDA pre exceptionals comprises gross profit, selling expenses, general administration expenses, research and development expenses and other operating income and expenses. It does not include, in particular, depreciation and amortization or exceptional items, which relate principally to restructuring activities.

Reconciliation of Segment Sales and Segment Result

€ million	2008	2009
Total of segment sales	**6,617**	**5,109**
Other/Consolidation	(41)	(52)
Group sales	**6,576**	**5,057**
Total of segment results	**840**	**586**
Other/Consolidation	(118)	(121)
Exceptional items in EBITDA	(120)	(43)
Depreciation and amortization	(279)	(273)
Financial result	(77)	(117)
Income before income taxes	**246**	**32**

Segment assets principally comprise property, plant and equipment, intangible assets, inventories and trade receivables. In particular, segment assets do not include cash and cash equivalents, income tax receivables, receivables from derivatives, or other financial assets. The first-time application of IFRS 8 led to minor adjustments to the previous year's figures for segment assets.

Reconciliation of Segment Assets

€ million	2008	2009
Segment assets	**3,685**	**3,794**
Other/Consolidation	144	95
Cash and cash equivalents	249	313
Near-cash assets	0	402
Derivative assets	77	45
Other financial assets	227	225
Income tax receivables	56	31
Deferred tax assets	154	163
Group assets	**4,592**	**5,068**

Segment liabilities basically consist of trade payables, other liabilities and provisions. In particular, segment liabilities do not include income tax liabilities, liabilities from derivatives, or other financial liabilities.

Reconciliation of Segment Liabilities

€ million	2008	2009
Segment liabilities	**1,448**	**1,474**
Other/Consolidation	398	426
Other financial liabilities	1,154	1,556
Derivative liabilities	109	30
Income tax liabilities	103	99
Deferred tax liabilities	41	38
Group liabilities	**3,253**	**3,623**

Capital expenditures made by the segments mainly comprise additions to intangible assets, property, plant and equipment.

All depreciation, amortization and write-downs in fiscal 2008 and 2009 were recognized directly in income.

In fiscal 2009, the segments reported other non-cash expenses of €297 million (2008: €422 million). These were attributable to the segments as follows: Performance Polymers €150 million (2008: €223 million), Advanced Intermediates €66 million (2008: €66 million) and Performance Chemicals €81 million (2008: €133 million). The reconciliation contained a total of €125 million (2008: €197 million) in non-cash expenses. The principal non-cash expenses comprised allocations to provisions and write-downs of inventories and receivables.

34 Audit fees In 2009, audit fees of €2,669 thousand (2008: €2,254 thousand) for the auditor of the consolidated financial statements of the LANXESS Group were recognized as expenses. Of this amount, €1,170 thousand (2008: €1,161 thousand) related to the auditing of financial statements, €483 thousand (2008: €488 thousand) to audit-related services and other assurance and valuation services, and €1,016 thousand (2008: €605 thousand) to other services rendered to Group companies. The fees for financial statement auditing comprise all fees, including incidental expenses, paid or still to be paid for the audit of the consolidated financial statements of the LANXESS Group as well as for the audit of the mandatory financial statements of LANXESS AG and its German subsidiaries.

35 Declaration of Compliance pursuant to Section 161 of the Stock Corporation Act Declaration of Compliance with the German Corporate Governance Code has been issued pursuant to Section 161 of the German Stock Corporation Act (AktG) and made available to stockholders.

36 Exemptions under Section 264 Paragraph 3 of the German Commercial Code The following German subsidiaries made use of some of the disclosure exemptions granted in Section 264 Paragraph 3 of the German Commercial Code (HGB):

ALISECA GmbH, Leverkusen
Erste LXS GmbH, Leverkusen
IAB Ionenaustauscher GmbH Bitterfeld, Greppin
LANXESS Accounting GmbH, Leverkusen
LANXESS Buna GmbH, Marl
LANXESS Deutschland GmbH, Leverkusen
LANXESS Distribution GmbH, Langenfeld
LANXESS International Holding GmbH, Leverkusen
LXS Dormagen Verwaltungs-GmbH, Dormagen
Perlon-Monofil GmbH, Dormagen
Rhein Chemie Rheinau GmbH, Mannheim
SALTIGO GmbH, Langenfeld
Vierte LXS GmbH, Leverkusen

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable financial reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Leverkusen, March 2, 2010

LANXESS Aktiengesellschaft, Leverkusen

The Board of Management

Dr. Axel C. Heitmann	Dr. Werner Breuers
Dr. Rainier van Roessel	Matthias Zachert

Auditor's Report

Our auditor has issued the following unqualified opinion on the consolidated financial statements and the Group management report as of December 31, 2009, which were prepared on March 2, 2010:

We have audited the consolidated financial statements prepared by the LANXESS Aktiengesellschaft, Leverkusen, the statement of financial position, the income statement and statement of comprehensive income, statement of changes in equity, statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2009. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the E.U., and with the additional requirements of German commercial law pursuant to § (Article) 315 a Abs. (Paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) is the responsibility of the parent company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the company's Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the E.U., the additional requirements of German commercial law pursuant to § 315 a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Cologne, March 3, 2010

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Peter Albrecht	Jörg Sechser
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

LANXESS AG, Leverkusen
Group Financial Statements as of December 31, 2009 - List of Ownership Interests

	Name and registered office	Interest held (%)	Currency	Equity in million € or local currency	Result in million € or local currency	
	Companies included in the Group financial statements as at December 31, 2009					
	Germany					
1	LANXESS AG, Leverkusen	**100,0**	EUR	1.137	51	
2	Aliseca GmbH, Leverkusen	**100,0**	EUR	0	0	*
3	Dubay Polymer GmbH, Hamm	**50,0**	EUR	18	2	
4	IAB Ionenaustauscher GmbH Bitterfeld, Greppin	**100,0**	EUR	67	0	*
5	LANXESS Accounting GmbH, Leverkusen	**100,0**	EUR	0	0	*
6	LANXESS Buna GmbH, Marl	**100,0**	EUR	8	0	*
7	LANXESS Deutschland GmbH, Leverkusen	**100,0**	EUR	1.499	0	*
8	LANXESS Distribution GmbH, Langenfeld	**100,0**	EUR	4	0	*
9	LANXESS International Holding GmbH, Leverkusen	**100,0**	EUR	0	0	*
10	LXS Dormagen Verwaltungs-GmbH, Dormagen	**100,0**	EUR	32	0	*
11	Perlon-Monofil GmbH, Dormagen	**100,0**	EUR	2	0	*
12	Rhein Chemie Rheinau GmbH, Mannheim	**100,0**	EUR	45	0	*
13	SALTIGO GmbH, Langenfeld	**100,0**	EUR	28	0	*
	EMEA					
14	Europigments, S.L., Barcelona (Spain)	**52,0**	EUR	5	0	
15	LANXESS (Pty.) Ltd., Modderfontein (South Africa)	**100,0**	ZAR	667	171	
16	LANXESS Central Eastern Europe s.r.o., Bratislava (Slovakia)	**100,0**	SKK	2	1	
17	LANXESS Chemicals, S.L., Barcelona (Spain)	**100,0**	EUR	3	0	
18	LANXESS CISA (Pty.) Ltd., Newcastle (South Africa)	**100,0**	ZAR	468	-1	
19	LANXESS Elastomères S.A.S., Lillebonne (France)	**100,0**	EUR	53	-10	
20	LANXESS Emulsion Rubber S.A.S., La Wantzenau (France)	**100,0**	EUR	32	-10	
21	LANXESS Finance B.V., Ede (Netherlands)	**100,0**	EUR	7	2	
22	LANXESS Holding Hispania, S.L., Barcelona (Spain)	**100,0**	EUR	511	-159	
23	LANXESS International SA, Granges-Paccot (Switzerland)	**100,0**	CHF	278	92	
24	LANXESS Limited, Newbury (Great Britain)	**100,0**	GBP	13	1	
25	LANXESS Mining (Proprietary) Ltd., Modderfontein (South Africa)	**100,0**	ZAR	69	6	
26	LANXESS N.V., Antwerp (Belgium)	**100,0**	EUR	259	3	
27	LANXESS Rubber N.V., Zwijndrecht (Belgium)	**100,0**	EUR	169	24	
28	LANXESS S.A.S., Courbevoie (France)	**100,0**	EUR	61	20	
29	LANXESS S.r.l., Milan (Italy)	**100,0**	EUR	16	2	
30	OOO LANXESS, Dzerzhinsk (Russia)	**100,0**	RUB	52	-3	
31	Sybron Chemical Industries Nederland B.V., Ede (Netherlands)	**100,0**	EUR	96	81	
32	Sybron Chemicals International Holdings Ltd., Newbury (Great Britain)	**100,0**	GBP	0	0	
	North America					
33	LANXESS Buna LLC, Wilmington (USA)	**100,0**	USD	-11	-8	
34	LANXESS Corporation, Pittsburgh (USA)	**100,0**	USD	99	-22	
35	LANXESS Inc., Sarnia (Canada)	**100,0**	CAD	485	-41	
36	LANXESS Sybron Chemicals Inc., Birmingham (USA)	**100,0**	USD	29	-7	
37	Rhein Chemie Corporation, Chardon (USA)	**100,0**	USD	-18	-1	
38	Sybron Chemical Holdings Inc., Wilmington (USA)	**100,0**	USD	29	-7	
	Latin America					
39	LANXESS Elastômeros do Brasil S.A., Rio de Janeiro (Brasil)	**100,0**	BRL	404	-30	
40	LANXESS Industria de Produtos Quimicos e Plasticos Ltda., Sao Paulo (Brasil)	**100,0**	BRL	35	-46	
41	LANXESS S.A. de C.V., Mexico City (Mexico)	**100,0**	MXN	20	-177	
42	LANXESS S.A., Buenos Aires (Argentina)	**100,0**	ARS	140	2	
43	Petroflex Trading S.A., Montevideo (Uruguay)	**100,0**	BRL	-4	-5	

*Result after profit transfer agreement

	Name and registered office	Interest held (%)	Currency	Equity in million € or local currency	Result in million € or local currency
	Asia/Pacific				
44	LANXESS (Liyang) Polyols Co.,Ltd., Liyang (China)	**100,0**	CNY	100	-12
45	LANXESS (Shanghai) Trading Co. Ltd., Shanghai (China)	**100,0**	CNY	38	-2
46	LANXESS Butyl Pte. Ltd., Singapore (Singapore)	**100,0**	SGD	26	-8
47	LANXESS Chemical (Shanghai) Company Ltd., Shanghai (China)	**100,0**	CNY	18	-40
48	LANXESS Hong Kong Limited, Hongkong (Hong Kong)	**100,0**	HKD	535	25
49	LANXESS India Private Ltd., Thane (India)	**100,0**	INR	3.740	-4
50	LANXESS K.K., Tokyo (Japan)	**100,0**	JPY	3.528	-336
51	LANXESS Korea Limited, Seoul (South Korea)	**100,0**	KRW	3.033	1.686
52	LANXESS Pte. Ltd., Singapore (Singapore)	**100,0**	SGD	81	11
53	LANXESS PTY Ltd., Homebush Bay (Australia)	**100,0**	AUD	10	0
54	LANXESS Shanghai Pigments Co. Ltd., Shanghai (China)	**100,0**	CNY	142	11
55	LANXESS Specialty Chemicals Co. Ltd., Shanghai (China)	**100,0**	CNY	31	-11
56	LANXESS Wuxi Chemical Co. Ltd., Wuxi (China)	**100,0**	CNY	285	72
57	Rhein Chemie (Qingdao) Co. Ltd., Qingdao (China)	**90,0**	CNY	145	31
58	Rhein Chemie Japan Ltd., Tokio (Japan)	**100,0**	JPY	1.294	2
59	Rhein Chemie LOA (Qingdao) Limited, Qingdao (China)	**100,0**	CNY	6	-10
	Associated companies				
	Germany				
60	Currenta GmbH & Co. OHG, Leverkusen	**40,0**	EUR	78	15
	Jointly controlled entities				
	Asia/Pacific				
61	Anhui Tongfeng Shengda Chemical Co. Ltd., Tongling (China)	**25,0**	CNY	16	-14

	Name and registered office	Interest held (%)	Currency	Equityin million €or local currency	Resultin million €or local currency	
	Companies not included in the Group financial statements as at December 31, 2008					
	Germany					
1	Erste LXS GmbH, Leverkusen	**100,0**	EUR	0	0	*
2	Vierte LXS GmbH, Leverkusen	**100,0**	EUR	0	0	*
	EMEA					
3	Rustenburg Chrome Mine Holdings (Pty.) Ltd., Modderfontein (South Africa)	**74,0**	ZAR	0	0	
4	W. Hawley & Son. Ltd., Newbury (Great Britain)	**100,0**	GBP	0	0	
	North America					
5	LANXESS Energy LLC, Wilmington (USA)	**100,0**	USD	0	0	
6	Petroflex America Inc., Newark (USA)	**100,0**	USD	0	-1	
	Latin America					
7	Comercial Andinas Ltda., Santiago de Chile (Chile)	**100,0**	CLP	213	-1	
	Other investments					
	Latin America					
8	Hidrax Ltda., Taboao da Serra (Brasil)	**39,0**	BRL	5	1	

*Result after profit transfer agreement